DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

JUNE 30, 2008

Submitted By
The Auditor
State of Hawaii

PART I

INTRODUCTORY SECTION

Ohata Chun Yuen LLP
CERTIFIED PUBLIC ACCOUNTANTS

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January 15, 2009

Ms. Marion Higa
Office of the Auditor
State of Hawaii

Dear Ms. Higa:

We have completed our financial audit of the Department of Land and Natural Resources, State of Hawaii as of and for the fiscal year ended June 30, 2008. Our audit was performed in accordance with the terms of our contract with the State of Hawaii and with the requirements of the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

OBJECTIVES OF THE AUDIT

The objectives of our audit were:

1. To provide a basis for an opinion on the fairness of the financial statements of the Department of Land and Natural Resources (Department).

2. To determine whether expenditures and other disbursements have been made and all revenues and other receipts to which the Department is entitled have been collected and accounted for in accordance with the laws, rules and regulations, and policies and procedures of the State of Hawaii and the federal government.

3. To determine whether the Department's internal control is adequate in assuring that there is effective control over the proper accounting of revenues, expenditures, assets, and liabilities.

4. To determine whether the Department has established sufficient internal controls to properly manage federal financial assistance programs and to comply with the applicable laws and regulations.

5. To determine whether the Department has complied with the laws and regulations that may have a material effect on the financial statements and on each major federal financial assistance program of the Department.

SCOPE OF THE AUDIT

Our audit was performed in accordance with auditing standards generally accepted in the United States of America, as prescribed by the American Institute of Certified Public Accountants; *Government Auditing Standards*, issued by the Comptroller General of the United States; and the provisions of OMB Circular A-133. The scope of our audit included an examination of the transactions and accounting records of the Department for the fiscal year ended June 30, 2008.

ORGANIZATION OF THE REPORT

This report is organized into five parts:

PART	I -	presents the introduction.
PART	II -	presents the financial statements and the auditors' report on such statements.
PART	III -	presents other supplementary financial data.
PART	IV -	contains the report on compliance and on internal control over financial reporting and the report on compliance with requirements applicable to each major program and internal control over compliance.
PART	V -	contains the schedule of findings and questioned costs and provides the status of prior audit findings.

* * * * *

At this time, we wish to express our sincere appreciation for the excellent cooperation and assistance extended to us by the personnel of the Department. We shall be pleased to respond to any questions that you may have on this report.

Very truly yours,

Okata Chun Yuen LLP

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PART II

FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

Office of the Auditor
State of Hawaii

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, State of Hawaii (Department), as of and for the year ended June 30, 2008, which collectively comprise the Department's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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, 2008, the respective changes in financial position thereof, and the respective budgetary comparison for the general fund and other major special revenue funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued our report dated January 15, 2009, 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, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 7 through 17 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Department's basic financial statements. The introductory section and the combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is also not a required part of the basic financial statements of the Department. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Okata Chun Yuen LLP

Honolulu, Hawaii
January 15, 2009

LINDA LINGLE
GOVERNOR OF HAWAII

LAURA H. THIELEN
CHAIRPERSON
BOARD OF LAND AND NATURAL RESOURCES
COMMISSION ON WATER RESOURCE MANAGEMENT

RUSSELL Y. TSUJI
DEPUTY DIRECTOR

KEN C. KAWAHARA
DEPUTY DIRECTOR - WATER

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

STATE OF HAWAII
DEPARTMENT OF LAND AND NATURAL RESOURCES

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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, 2008. 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 2008

- The assets of the DLNR exceeded its liabilities at June 30, 2008, by $479.6 million. Of this amount, $170.8 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 balance of $179.0 million.

- During the year, the DLNR's total revenue was $188.4 million and expenses totaled $149.0 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 Assets* presents information on all of the DLNR's assets and liabilities, with the difference between the two reported as "net assets." Increases and decreases in the net assets 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 assets changed during the most recent fiscal year.

Fund Financial Statements

The fund financial statements provide more detailed information about the DLNR's most significant funds and not the DLNR as a whole. The financial activities of the DLNR are recorded in individual funds, each of which is deemed to be a separate accounting entity. Funds are either reported as a major fund or a non-major fund. 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 on balances of spendable resources available at the end of the fiscal year.

The financial activities of the DLNR reported in the governmental fund financial statements are classified into the following major governmental funds:

- General Fund - The general fund is the operating fund of the DLNR. It is used to account for all financial activities except those required to be accounted for in another fund. 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.

- Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.

- Capital Project Fund - The capital project fund is used to account for financial resources used for the acquisition, construction, or improvement of major capital facilities.

- Expendable Trust Funds: - Expendable trust funds account for cash collected and expended by the DLNR for designated purposes.

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

Notes to 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 non-major Governmental Funds.

DEPARTMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, changes in net assets may serve over time as a useful indicator of the DLNR's financial position. As of June 30, 2008, the DLNR's total net assets were approximately $479.6 million.

The largest part of the DLNR's net assets 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 assets:

Summary of Statement of Net Assets
(in millions)

	2008	2007	Increase (Decrease)
Cash and short term investments	$213.5	$ 176.6	$ 36.9
Receivables	5.7	6.1	(0.4)
Capital assets	313.2	266.8	46.4
Total assets	$ 532.4	$ 449.5	$ 82.9
Current liabilities	44.1	41.0	3.1
Long-term liabilities	8.7	9.2	(0.5)
Total liabilities	52.8	50.2	2.6
Invested in capital assets, net of related debt	308.8	261.1	47.7
Unrestricted	170.8	138.2	32.6
Total net assets	479.6	399.3	80.3
Total liabilities and net assets	$ 532.4	$ 449.5	$ 82.9

DLNR's net assets increased by $80.3 million during the fiscal year ended June 30, 2008. This was due in large part to the increase of Capital assets by $46.4 million and increase of Capital Projects Fund's Cash in State Treasury by $31.2 million.

The $31.2 million increase in the Capital Projects Fund was due to the allotment and encumbrance of $12 million of prior year appropriations as well as an increase of $20 million in current year allotments. Much of the funding was targeted for improvements of various state monuments, park facilities, and harbor facilities.

Capital asset increases included $8.7 million of land acquisition in Pupukea-Paumalu on Oahu and an increase of $35.5 million in construction work in progress.

Analysis of the DLNR's Operations: The following table provides a summary of the DLNR's operations for the year ended June 30, 2008:

Changes in Net Assets
(in millions)

	2008	2007	Increase (Decrease)
Program revenue			
Interest, rents, taxes and fees	$ 45.9	$ 48.8	$ (2.9)
Operating grants and contributions	34.5	25.2	9.3
State allotted appropriations, net of lapses	108.2	73.2	35.0
Total revenue	188.6	147.2	41.4
Total expenses	107.9	107.0	0.9
Excess before transfers	80.7	40.2	40.5
Transfers	(0.4)	(2.6)	2.2
Change in net assets	80.3	37.6	42.7
Net assets – beginning	399.3	361.7	37.6
Net assets - end of year	$ 479.6	$ 399.3	$ 80.3

Revenues of the DLNR consist of state appropriations, charges for services, program investment income and federal grants. Charges for services consist primarily of rent from leases, licenses and permits from public lands. Allocations of conveyance and liquid fuel taxes are also included in program revenue as is interest earned on funds invested by the State Director of Finance. Increase in program revenue was mainly due to the $35.8 million increase of capital improvement project appropriations and the $5.8 million contribution received from The Trust for Public Land for the Pupukea-Paumalu land purchase.

FINANCIAL ANALYSIS OF THE DEPARTMENT'S GOVERNMENTAL FUNDS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. As noted earlier, the DLNR uses fund accounting to ensure and demonstrate compliance with finance and related legal requirements. The Natural Area Reserves Fund and the Kaho'olawe Rehabilitation Trust Fund no longer meet the criteria of a major fund in Fiscal Year 2008 and are included with other funds of the Department.

Comparison of Balance Sheets
(in millions)

	Assets			Liabilities			Fund Balances		
	2008	2007	Change	2008	2007	Change	2008	2007	Change
General Fund	$ 19.4	$ 16.1	$ 3.3	$ 6.0	$ 2.8	$ 3.2	$ 13.4	$ 13.3	$ 0.1
Federal Grant Fund	8.8	8.5	0.3	14.0	13.1	0.9	(5.2)	(4.6)	(0.6)
Water and Land Development Fund	0.9	0.5	0.4	6.2	6.2	0.0	(5.2)	(5.6)	0.4
Natural Area Reserves Fund	0.0	21.5	(21.5)	0.0	1.3	(1.3)	0.0	20.2	(20.2)
Ocean Based Recreation Fund	2.5	2.2	0.3	4.6	4.0	0.6	(2.2)	(1.9)	(0.3)
Kaho'olawe Rehabilitation Trust Fund	0.0	23.5	(23.5)	0.0	0.6	(0.6)	0.0	22.9	(22.9)
Capital Projects Fund	112.8	81.6	31.2	3.7	4.9	(1.2)	109.1	76.7	32.4
Other Funds	75.2	28.9	46.3	6.1	4.3	1.8	69.1	24.6	44.5
Total	$ 219.6	$ 182.8	$ 36.8	$ 40.6	$ 37.2	$ 3.4	$ 179.0	$ 145.6	$ 33.4

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

	Revenues			Expenditures			Transfers			Lapsed Appropriations			Net Changes in Fund Balances		
	2008	2007	Change	2008	2007	Change	2008	2007	Change	2008	2007	Change	2008	2007	Change
General Fund	$45.2	$46.3	-$1.1	$41.5	$34.1	$7.4	-$1.8	-$0.7	-$1.1	-$1.8	-$0.9	-$0.9	$0.1	$10.5	-$10.4
Federal Grant Fund	17.5	16.2	1.3	17.3	18.4	-1.1	-0.9	-0.1	-0.8			0.0	-0.7	-2.3	1.6
Water and Land Development	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.0	0.4			0.0	0.4	0.0	0.4
Natural Area Reserve Fund	0.0	12.4	-12.4	0.0	5.6	-5.6	0.0	-2.8	2.8			0.0	0.0	4.0	-4.0
Ocean-Based Recreation Fund	12.3	12.2	0.1	11.4	11.4	0.0	-1.2	-1.7	0.5			0.0	-0.3	-0.8	0.5
Kaho'olawe Rehabilitation Trust Fund	0.0	1.2	-1.2	0.0	5.8	-5.8	0.0	0.0	0.0			0.0	0.0	-4.6	4.6
Capital Projects Fund	78.0	40.3	37.7	43.0	47.3	-4.3	1.3	0.0	1.3	-3.9	-4.9	1.0	32.4	-12.0	44.4
Other Funds	35.4	23.5	11.9	35.8	23.4	12.4	1.8	2.7	-0.9			0.0	1.4	2.8	-1.4
Total	$188.4	$152.1	$36.3	$149.0	$146.0	$3.0	-$0.4	-$2.6	$2.2	-$5.7	-$5.8	$0.1	$33.3	-$2.4	$35.7

The General Fund is the primary operating fund of the DLNR. At the end of the current fiscal year, there was a $1.5 million deficit in the unreserved fund balance of the General Fund. The deficit resulted from recognition of expenditures under GAAP in 2008 and will be funded with fiscal year 2009 state allotted appropriations.

The DLNR has three major and several non-major special funds. A fund is categorized as major if the percentages of its assets, liabilities, revenues, or expenditures exceed pre-defined percentages when compared to the corresponding total of all funds in that category. The DLNR's three major special revenue funds are: 1) Federal Grant Fund; 2) Water and Land Development Fund; and 3) 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 $32.3 million from more than 200 hundred individual grants. A Schedule of Expenditures of Federal Awards, which lists the various grants, can be found in the Supplemental Information section.

The Water and Land Development Fund is a major special fund due to a $6.2 million recorded liability to another state agency. Additional information on this liability is available in note 11 of the Notes to the Financial Statements. This fund also contains a revolving fund used to receive and pay for accrued leave for project funded employees who enter and leave the capital improvement projects staff.

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. Revenue was approximately $12.3 million and expenditures approximately $11.4 million.

The Capital Projects Fund received approximately $77.9 million of State allotted appropriations for capital projects. Capital projects funds are used to account for financial resources to acquire or construct major capital facilities.

FINANCIAL ANALYSIS OF THE DEPARTMENT'S FIDUCIARY NET ASSETS

These funds account for assets held by the DLNR in a trustee or agent capacity for other State departments, individuals and organizations. The increase in cash and short term investments represents the 80% share of general funds derived from ceded lands. These funds will be used to fulfill any commitments to the Office of Hawaiian Affairs required per Section 3 of Act 178, SLH 2006 and Executive Order No. 06-06.

Summary of Statement of Fiduciary Assets
(In millions)

	2008	2007	Increase (Decrease)
Cash and short term investments	$ 12.2	$ 10.7	$ 1.5
Receivables - General leases and licenses	0.8	0.6	0.2
Total assets	13.0	11.3	1.7
Due to State Treasury	0.5	0.4	0.1
Due to other State agencies	0.9	0.8	0.1
Total liabilities	1.4	1.2	0.2
Held in trust for Individuals and organizations	11.6	10.1	1.5
Total net assets	$ 11.6	$ 10.1	$ 1.5

BUDGETARY HIGHLIGHTS

General Fund - Actual expenditures for general funded programs were $3.3 million less than the budgeted expenditures. The $1.0 million General Fund appropriated to establish the Dam and Reservoir Safety Special Fund was recorded as a transfer out of General Fund instead of as an expenditure. About $1.0 million of General Fund expenditures to repair damages caused by natural disasters of March 2006 floods, October 2006 earthquake, and December 2007 high winds were offset by federal fund reimbursements. $.5 million appropriated for the operation of the soil and water conservation districts lapsed due to the funds not being released as budgeted. Approximately $1.0 million was due to savings from vacant positions.

Federal Funds - In anticipation of new and additional federal grant funds in fiscal year 2008, the DLNR requested and received approval from the Governor to increase the ceilings on its federal grant operating appropriations by approximately $10.8 million. $8.3 million new sources of federal funding included funds from Fish and Wildlife Services for land acquisition as well as management of wetlands. Ceiling increases of $2.5 million was also approved for the Commercial Fisheries, Aquatic Resources, and Recreational Fisheries programs receiving additional funds from the National Oceanic and Atmospheric Administration and from the Fish and Wildlife Service. A $14.9 million ceiling increase was authorized for our forestry and wildlife programs in FY08. These included funds for endangered species recovery and restoration, landowner incentives to manage and conserve wildlife and habitat, land acquisitions for wetlands and endangered species, promotion of the forestry industry in Hawaii and a variety of private landowner assistance programs.

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.

Water and Land Development Fund –This fund contains a revolving fund used to receive and pay for accumulated leave of capital projects funded staff. Revenue is recognized from 1) accumulated vacation transfers for new staff and 2) interest income earned on the accumulated fund balance. Interest income for the year amounted to $26,672. The remaining revenue balance of $1,929 was received for accumulated leave for new staff members. This fund's revenue and expenditures are directly related to personnel decisions and therefore cannot be accurately predicted.

Ocean Based Recreation Fund - This special fund is the primary operating fund for the Division of Boating and Ocean Recreation. Actual revenue collected was $3.7 million less than budgeted and expenditures were $4.2 million less than budgeted because the division's operating budget had been approved by the Legislature based on an anticipated 8% fee increase that was not implemented until July 2008.

CAPITAL ASSETS AND DEBT ADMINISTRATION

At the end of fiscal year 2008 the DLNR had invested approximately $313.2 million (net of accumulated depreciation) in a broad range of capital assets. The inventory of construction-in-progress increased by $35.4 million. Land acquisition included 1,104 acres of Oahu property situated at Pupukea-Paumalu to be used as a State park reserve.

See Note 5 to the financial statements for a description of capital assets activities for the Fiscal Year Ended June 30, 2008.

Capital Assets
(In millions)

	2008	2007	Increase (Decrease)
Capital assets not being depreciated			
Land	$ 157.2	$ 147.1	$ 10.1
Land improvements	0.7	0.7	0.0
Construction in progress	111.0	75.6	35.4
Total capital assets not being depreciated	268.9	223.4	45.5
Capital assets being depreciated			
Buildings	32.0	32.0	0.0
Land and improvements	83.6	80.3	3.3
Furniture and equipment	10.8	9.4	1.4
Vehicles	15.1	13.5	1.6
Total capital assets being depreciated	141.5	135.2	6.3
Less total accumulated depreciation	(97.2)	(91.8)	(5.4)
Total capital assets being depreciated, net	44.3	43.4	0.9
Total capital assets, net	$ 313.2	$ 266.8	$ 46.4

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

The accrued vacation balance as of June 30, 2008 was $8,125,385, an increase of $703,796 from fiscal year 2007. Beginning with FY06, leave amounts were increased to include certain fringe benefits. For FY08, the value attributed to fringe benefits was $577,419.

The outstanding balance of the State of Hawaii general obligation bonds allocated to the DLNR is approximately $4.5 million as of June 30, 2008, a decrease of $1,178,614 from the amount outstanding as of June 30, 2007. In addition to the payments for bond principal, interest approximating $238,318 was paid by during the fiscal year ended June 30, 2008. 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 6 to the financial statements for details of the general obligations bonds outstanding as of June 30, 2008.

Long Term Obligations
(In millions)

	2008	2007	Increase (Decrease)
Accrued vacation	$ 8.1	$ 7.4	$ 0.7
General obligation bonds	4.5	5.7	(1.2)
Total long term debt	$ 12.6	$ 13.1	$ (0.5)

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

The Department has entered into two agreements with the Department of Budget and Finance for loans up to $3 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 Assets
June 30, 2008

ASSETS

Cash and short-term cash investments held in State Treasury	$213,496,714
Receivables:	
Federal grants	5,668,249
General leases and licenses, net of allowance for losses of $938,828	5,958
Capital assets:	
Land, improvements, construction-in-progress and other capital assets, net of depreciation	313,241,941
Total assets	$532,412,862

LIABILITIES

Vouchers and contracts payable	$ 14,224,221
Accrued wages and employee benefits payable	2,844,710
Due to State Treasury	12,031,841
Due to other State Agencies	8,896,558
Deferred revenue	1,167,421
General obligation bonds:	
Due within one year	1,060,000
Due in more than one year	3,424,371
Note payable to State Treasury	985,575
Accrued vacation:	
Due within one year	2,811,337
Due in more than one year	5,314,048
Security deposits	39,600
Total liabilities	52,799,682

Commitments and contingencies

NET ASSETS

Invested in capital assets, net of related debt	308,757,570
Unrestricted	170,855,610
Total net assets	479,613,180
Total liabilities and net assets	$532,412,862

The accompanying notes are an integral part of the financial statements.

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Statement Of Activities
For The Year Ended June 30, 2008

Functions/Programs	Expenses	Program Revenue: Interest, Rents and Fees	Program Revenue: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Departmental activities:				
Economic development	$ 7,692,389	$ 483,566	$ 194,523	$ (7,014,300)
Environmental protection	50,279,001	11,887,922	13,399,931	(24,991,148)
Culture and recreation	37,226,911	17,231,822	19,578,690	(416,399)
Public safety	3,634,796	75	1,198,386	(2,436,335)
Individual rights	3,994,436	4,113,385	4,068	123,017
Government-wide support	5,086,174	12,181,535	98,637	7,193,998
Total departmental activities	$107,913,707	$45,898,305	$34,474,235	(27,541,167)
General revenues:				
Appropriations, net of lapsed appropriations				108,232,681
Total general revenues before transfers				108,232,681
Transfers, net				(414,417)
Total general revenues and transfers				107,818,264
Change in net assets				80,277,097
Net assets at July 1, 2007				399,336,083
Net assets at June 30, 2008				$479,613,180

The accompanying notes are an integral part of the financial statements.

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Balance Sheet
Governmental Funds
June 30, 2008

	General Fund	Federal Grant Fund	Water and Land Development	Ocean-Based Recreation Fund	Capital Projects Fund	Other Funds	Total
ASSETS							
Cash and short-term cash investments held in State Treasury	$19,417,216	$ 4,348,569	$ 949,214	$ 2,349,048	$111,531,957	$74,900,710	$213,496,714
Receivables:							
Federal grants	-	4,422,605	-	-	1,245,644	-	5,668,249
General leases and licenses, net of allowance of $938,829	-	-	-	-	-	5,958	5,958
Due from Federal Grant Fund	-	-	-	128,767	-	313,779	442,546
Total assets	$19,417,216	$ 8,771,174	$ 949,214	$ 2,477,815	$112,777,601	$75,220,447	$219,613,467
LIABILITIES							
Vouchers and contracts payable	$ 4,659,794	$ 2,065,154	$ 13,756	$ 389,109	$ 2,591,282	$ 4,505,126	$ 14,224,221
Accrued wages and employee benefits payable	1,345,566	150,749	-	313,160	130,879	904,356	2,844,710
Due to State Treasury	-	10,844,703	-	1,187,138	-	-	12,031,841
Due to other State agencies	-	-	6,180,795	2,440,724	-	275,039	8,896,558
Due to Special Revenue Funds	-	442,546	-	-	-	-	442,546
Deferred revenue	-	494,016	-	318,396	-	355,009	1,167,421
Note payable to State Treasury	-	-	-	-	985,575	-	985,575
Security deposits	-	-	-	-	-	39,600	39,600
Total liabilities	6,005,360	13,997,168	6,194,551	4,648,527	3,707,736	6,079,130	40,632,472
Commitments and contingencies							
FUND BALANCES							
Reserved for:							
Encumbrances	14,789,980	5,716,362	30,529	1,227,058	63,499,289	19,112,497	104,375,715
Receivables	-	4,422,604	-	128,767	1,245,644	319,737	6,116,752
Continuing appropriations	-	-	-	-	44,324,932	-	44,324,932
Unexpended Federal awards	-	-	-	-	-	17,681,307	17,681,307
Total reserved fund balances	14,789,980	10,138,966	30,529	1,355,825	109,069,865	37,113,541	172,498,706
Unreserved:							
Unreserved reported in major funds	(1,378,124)	(15,364,960)	(5,275,866)	(3,526,537)	-	-	(25,545,487)
Unreserved reported in nonmajor - Special Revenue Funds	-	-	-	-	-	32,027,776	32,027,776
Total unreserved fund balances	(1,378,124)	(15,364,960)	(5,275,866)	(3,526,537)	-	32,027,776	6,482,289
Total fund balances	13,411,856	(5,225,994)	(5,245,337)	(2,170,712)	109,069,865	69,141,317	178,980,995
Total liabilities and fund balances	$19,417,216	$ 8,771,174	$ 949,214	$ 2,477,815	$112,777,601	$75,220,447	$219,613,467

The accompanying notes are an integral part of the financial statements.

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Statement Of Revenues, Expenditures And Changes In Fund Balances
Governmental Funds
For The Year Ended June 30, 2008

	General Fund	Federal Grant Fund	Water and Land Development	Ocean-Based Recreation Fund	Capital Projects Fund	Other Funds	Total
Revenues							
Appropriations	$45,214,133	$ -	$ -	$ -	$ 68,681,000	$ -	$113,895,133
Intergovernmental revenues	-	17,409,115	-	-	9,208,727	1,057,769	27,675,611
General leases, licenses and permits	-	-	-	10,563,034	-	14,292,468	24,855,502
Taxes, fuel and others	-	-	-	1,640,151	-	15,694,707	17,334,858
Interest	-	45,555	26,672	76,819	45,706	3,513,193	3,707,945
Other	-	31,272	1,929	39,587	-	854,791	927,579
Total revenues	45,214,133	17,485,942	28,601	12,319,591	77,935,433	35,412,928	188,396,628
Expenditures							
Current:							
Economic development	3,149,879	1,785,903	65,463	-	-	2,628,529	7,629,774
Environmental protection	20,842,622	9,483,384	-	-	-	19,340,271	49,666,277
Culture and recreation	14,539,153	5,544,146	-	9,950,373	-	4,753,332	34,787,004
Public safety	2,920,554	436,325	-	-	-	90,490	3,447,369
Individual rights	-	-	-	-	-	3,979,102	3,979,102
Government-wide support	60,876	16,746	-	-	-	5,030,486	5,108,108
Capital improvement projects	-	-	-	-	42,949,323	-	42,949,323
Debt service:							
Principal on long-term debt	-	-	-	1,178,614	-	-	1,178,614
Interest on long-term debt	-	-	-	238,318	-	-	238,318
Total expenditures	41,513,084	17,266,504	65,463	11,367,305	42,949,323	35,822,210	148,983,889
Excess of revenues over (under) expenditures	3,701,049	219,438	(36,862)	952,286	34,986,110	(409,282)	39,412,739
Other financing sources (uses)							
Operating transfers in	-	6,376,890	972,320	12,160,526	1,250,000	60,999,919	81,759,655
Operating transfers out	(1,776,507)	(7,246,890)	(569,760)	(13,419,945)	-	(59,160,970)	(82,174,072)
Total other financing sources (uses)	(1,776,507)	(870,000)	402,560	(1,259,419)	1,250,000	1,838,949	(414,417)
Excess of revenues and other financing sources over (under) expenditures and other financing uses	1,924,542	(650,562)	365,698	(307,133)	36,236,110	1,429,667	38,998,322
Lapsed appropriations	1,811,766	-	-	-	3,850,686	-	5,662,452
Net change in fund balances	112,776	(650,562)	365,698	(307,133)	32,385,424	1,429,667	33,335,870
Fund balances at July 1, 2007	13,299,080	(4,575,432)	(5,611,035)	(1,863,579)	76,684,441	67,711,650	145,645,125
Fund balances at June 30, 2008	$13,411,856	$ (5,225,994)	$(5,245,337)	$(2,170,712)	$109,069,865	$69,141,317	$178,980,995

The accompanying notes are an integral part of the financial statements.

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Statement Of Fiduciary Net Assets
June 30, 2008

	Agency Funds
ASSETS	
Cash and short-term cash investments held in State Treasury	$12,224,759
Receivables:	
General leases and licenses, net of allowance for losses of $528,866	834,867
Total assets	13,059,626
LIABILITIES	
Due to State Treasury	538,731
Due to other State agencies	863,441
Total liabilities	1,402,172
NET ASSETS	
Held in trust for:	
Individuals and organizations	11,657,454
Total net assets	$11,657,454

The accompanying notes are an integral part of the financial statements.

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Reconciliation Of Governmental Funds Balance Sheet To The Statement Of Net Assets
June 30, 2008

	Total Governmental Funds	Long-Term Assets, Liabilities	Reclassifications and Eliminations	Statement of Net Assets
ASSETS				
Cash and short-term cash investments held in State Treasury	$213,496,714	$ -	$ -	$213,496,714
Receivables:				
Federal grants	5,668,249	-	-	5,668,249
General leases and licenses, net of allowance for losses	5,958	-	-	5,958
Due from Federal Grant Fund	442,546	-	(442,546)	-
Capital Assets:				
Land, improvements, construction-in-progress and other capital assets, net of depreciation	-	313,241,941 (1)	-	313,241,941
Total assets	$219,613,467	$313,241,941	$ (442,546)	$532,412,862
LIABILITIES				
Vouchers and contracts payable	$ 14,224,221	$ -	$ -	$ 14,224,221
Accrued wages and employee benefits payable	2,844,710	-	-	2,844,710
Due to State Treasury	12,031,841	-	-	12,031,841
Due to other State agencies	8,896,558	-	-	8,896,558
Due to Special Revenue Funds	442,546	-	(442,546)	-
Deferred revenue	1,167,421	-	-	1,167,421
Bonds payable:				
Due within one year	-	1,060,000 (2)	-	1,060,000
Due in more than one year	-	3,424,371 (2)	-	3,424,371
Note payable to State Treasury	985,575	-	-	985,575
Accrued vacation:				
Due within one year	-	2,811,337 (3)	-	2,811,337
Due in more than one year	-	5,314,048 (3)	-	5,314,048
Security deposits	39,600	-	-	39,600
Total liabilities	40,632,472	12,609,756	(442,546)	52,799,682
FUND BALANCES/NET ASSETS				
Invested in capital assets, net of related debt	-	266,775,532 (1) 52,544,715 (1) (6,078,306) (1) (5,662,985) (2) 1,178,614 (2)	-	308,757,570
Reserved/Restricted for:				
Encumbrances	104,375,715	-	(104,375,715) (4)	-
Receivables	6,116,752	-	(6,116,752) (4)	-
Continuing appropriations	44,324,932	-	(44,324,932) (4)	-
Unexpended federal awards	17,681,307	-	(17,681,307) (4)	-
Unreserved/Unrestricted	6,482,289	(8,125,385) (3)	172,498,706 (4)	170,855,610
Total fund balances/net assets	178,980,995	300,632,185	-	479,613,180
Total liabilities and fund balances/net assets	$219,613,467	$313,241,941	$ (442,546)	$532,412,862

The accompanying notes are an integral part of the financial statements.

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Reconciliation Of Governmental Funds Balance Sheet To The Statement Of Net Assets
June 30, 2008

Total fund balances - governmental funds		$178,980,995
Amounts reported for governmental activities in the statement of net assets are different because:		
(1) Capital assets used in governmental activities are not financial resources and therefore, are not reported in the governmental funds. These assets consist of:		
Land improvements	$ 83,654,777	
Other capital assets	57,879,047	
Accumulated depreciation	(97,237,036)	
Land	157,187,878	
Other capital assets, not depreciated	719,990	
Construction-in-progress	111,037,285	
Total capital assets		313,241,941
(2) Bonds payable are not reported in the governmental funds.		(4,484,371)
(3) Accrued vacation is not reported in the governmental funds.		(8,125,385)
(4) Reclassify reserved fund balances/net assets to unrestricted fund balances/net assets.		-
Total net assets		$479,613,180

The accompanying notes are an integral part of the financial statements.

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Reconciliation Of Governmental Funds Statement Of Revenues, Expenditures And Changes In Fund Balances
To The Statement Of Activities
For The Year Ended June 30, 2008

	Total Governmental Funds	Long-Term Assets, Liabilities	Reclassifications and Eliminations	Statement of Activities
Revenues				
Appropriations	$113,895,133	$ -	$(5,662,452) (5)	$108,232,681
Intergovernmental revenues	27,675,611	-	-	27,675,611
General leases, licenses and permits	24,855,502	-	-	24,855,502
Taxes, fuel and others	17,334,858	-	-	17,334,858
Interest	3,707,945	-	-	3,707,945
Other	927,579	5,871,045 (4)	-	6,798,624
Total revenues	188,396,628	5,871,045	(5,662,452)	188,605,221
Expenditures				
Economic development	7,629,774	(282,351)(1)	-	7,692,389
		1,612 (1)		
		294,993 (1)		
		48,361 (3)		
Environmental protection	49,666,277	(2,295,083)(1)	-	50,279,001
		5,087 (1)		
		2,367,445 (1)		
		535,275 (3)		
Culture and recreation	34,787,004	(1,031,120)(1)	238,318 (6)	37,226,911
		4,203 (1)		
		3,118,719 (1)		
		109,787 (3)		
Public safety	3,447,369	(2,194)(1)	-	3,634,796
		443 (1)		
		169,854 (1)		
		19,324 (3)		
Individual rights	3,979,102	(39,750)(1)	-	3,994,436
		66,686 (1)		
		(11,602)(3)		
Government-wide support	5,108,108	(73,849)(1)	-	5,086,174
		49,264 (1)		
		2,651 (3)		
Capital outlays	42,949,323	(42,949,323)(1)	-	-
Principal on long-term debt	1,178,614	(1,178,614)(2)	-	-
Interest on long-term debt	238,318	-	(238,318) (6)	-
Total expenditures	148,983,889	(41,070,182)	-	107,913,707
	39,412,739	46,941,227	(5,662,452)	80,691,514
Other financing sources (uses) and lapsed appropriations:				
Net operating transfers	(414,417)	-	-	(414,417)
Lapsed appropriations	(5,662,452)	-	5,662,452 (5)	-
Change in fund balances/net assets	$ 33,335,870	$46,941,227	$ -	$ 80,277,097

The accompanying notes are an integral part of the financial statements.

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Reconciliation Of Governmental Funds Statement Of Revenues, Expenditures And Changes In Fund Balances To The Statement Of Activities
For The Year Ended June 30, 2008

Change in fund balances - governmental funds		$33,335,870
Amounts reported for governmental activities in the statement of activities are different because:		
(1) Capital outlays are reported as expenditures in governmental funds, however, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these outlays are:		
Capital outlays and equipment purchases	$46,673,670	
Loss on disposal of equipment	(11,345)	
Depreciation expense	(6,066,961)	
Excess of capital outlays over depreciation expense		40,595,364
(2) Repayment of bond principal is reported as an expenditure in governmental funds, but the repayment reduces bonds payable in the statement of net assets.		1,178,614
(3) The increase in accrued vacation is not reported in governmental funds.		(703,796)
(4) The donated value of capital assets acquired is not reported in governmental funds.		5,871,045
(5) Lapsed appropriations are net against appropriations in the statement of activities.		-
(6) Reclassify interest on long-term debt to function.		-
Change in net assets		$80,277,097

The accompanying notes are an integral part of the financial statements.

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Statement Of Revenues And Expenditures - Budget And Actual - General Fund
For The Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget - Positive
	Original	Final	(Budgetary Basis)	(Negative)
Appropriations	$34,258,380	$45,214,133	$45,214,133	$ -
Expenditures:				
Economic development	2,068,284	6,541,967	5,849,594	692,373
Environmental protection	22,295,900	23,255,275	22,859,978	395,297
Culture and recreation	9,253,510	9,908,216	8,895,252	1,012,964
Public safety	640,686	5,508,675	4,354,775	1,153,900
Total expenditures	34,258,380	45,214,133	41,959,599	3,254,534
Excess of revenues over expenditures	$ -	$ -	$ 3,254,534	$ 3,254,534

The accompanying notes are an integral part of the financial statements.

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Statement Of Revenues And Expenditures - Budget And Actual - Other Major Funds
For The Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget - Positive
	Original	Final	(Budgetary Basis)	(Negative)
Federal Grant Fund				
Revenues	$22,507,476	$35,882,828	$17,485,943	$(18,396,885)
Expenditures:				
Economic development	1,058,120	1,862,063	1,739,420	122,643
Environmental protection	8,217,727	26,801,506	9,829,538	16,971,968
Culture and recreation	12,887,776	5,462,596	5,212,329	250,267
Public safety	269,745	1,682,555	474,974	1,207,581
Government-wide support	74,108	74,108	26,246	47,862
Total expenditures	22,507,476	35,882,828	17,282,507	18,600,321
Excess of revenues over expenditures	$ -	$ -	$ 203,436	$ 203,436

The accompanying notes are an integral part of the financial statements.

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Statement Of Revenues And Expenditures - Budget And Actual - Other Major Funds
For The Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget - Positive
	Original	Final	(Budgetary Basis)	(Negative)
Water and Land Development Fund				
Revenues	$ 521,664	$ 527,014	$ 28,601	$ (498,413)
Expenditures:				
Economic Development	521,664	527,014	86,149	440,865
Excess of expenditures over revenues	$ -	$ -	$ (57,548)	$ (57,548)
Ocean-Based Recreation Fund				
Revenues	$15,913,929	$16,033,112	$12,319,591	$(3,713,521)
Expenditures:				
Culture and recreation	15,913,929	16,033,112	11,832,416	4,200,696
Excess of revenues over expenditures	$ -	$ -	$ 487,175	$ 487,175

The accompanying notes are an integral part of the financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 accompanying financial statements of the DLNR have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). In June 1999 the GASB issued Statement 34 Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. This Statement establishes new financial reporting requirements for state and local governments throughout the United States of America. They require new information and restructure much of the information that governments have presented in the past. Comparability with reports issued in prior years is affected.

The accompanying financial statements present the financial position of the DLNR and the various funds and fund types and the changes in financial position of the DLNR and the various funds and fund types. The financial statements are presented as of June 30, 2008, and for the year then ended.

The following is a summary of significant accounting policies.

Reporting Entity

The DLNR is part of the executive branch of the State. The DLNR's financial statements are intended to present the financial position and 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. The State Comptroller maintains the central accounts for all State funds and publishes financial statements for the State annually which includes the DLNR's assets, liabilities, net assets and financial activities.

Departmental and Governmental Fund Financial Statements

The departmental financial statements (the statement of net assets and the statement of activities) report information of all of the non-fiduciary activities of the DLNR. The effect of interfund activity has been removed from these departmental financial statements.

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. Appropriations and other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are presented as reserves of fund balances.

Portions of fund balances are also reserved for the following:

- Encumbrances are recorded obligations in the form of purchase orders or contracts.

- Receivables are amounts owed to DLNR at year-end and are shown as reserved to indicate that portion of the fund balance that is not available for funding current expenditures.

- Continuing appropriations, which include specific legislative appropriations which do not lapse at the end of the year.

- 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.

Unreserved fund balances represent resources that have not been internally designated.

Financial statements are provided for DLNR's governmental and fiduciary funds. The DLNR has no proprietary funds. Major individual governmental funds are reported as separate columns in the governmental fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Departmental Financial Statements - The departmental 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 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 end. The DLNR has no principal revenue sources which are considered susceptible to accrual.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Exceptions include employees' vested annual leave which is recorded as an expenditure when utilized. The amount of accumulated annual leave unpaid at June 30, 2008, has been reported only in the departmental financial statements.

Fund Accounting

The accounts of the DLNR are organized on the basis of funds, each of which is considered a separate accounting entity. The financial activities of each fund are accounted for with a separate set of self-balancing accounts which represent each funds' assets, liabilities, fund equity, revenues and expenditures.

The financial activities of the DLNR that are reported in the accompanying governmental fund financial statements have been classified into the following major governmental funds:

General Fund - The general fund is used to account for all financial activities except those required to be accounted for in another fund. 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 (other than expendable trust) 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 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.

Water and Land Development Fund - This fund was established to account for revenues to be used for engineering services related to the development and administration of the Capital Improvements Projects Program and Flood Control/Dam Safety Programs.

Ocean-Based Recreation Fund - This 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.

Expendable Trust Funds - Expendable trust funds account for cash collected and expended by the DLNR for designated purposes.

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.

Fiduciary 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.

Appropriations

An authorization granted by the State Legislature permitting 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 by or encumbered at the end of the fiscal year, except for allotted appropriations related to capital projects.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the governmental fund types. Encumbrances outstanding at fiscal year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

Cash and Short-Term Cash Investments

Cash and short-term cash investments reported in the statement of net assets and the governmental funds balance sheet consists of cash and short-term cash investments held in the State Treasury.

The State of Hawaii maintains a cash pool that is available for all funds. Each fund type's portion of this pool is displayed on the statement of net assets and the governmental fund balance sheet within cash and short-term cash investments. Those funds are pooled with funds from other State agencies and departments and deposited in approved financial institutions by the State Director of Finance. Deposits not covered by federal deposit insurance are fully collateralized by government securities held in the name of the State by third-party custodians. Interest income from this cash pool is allocated to the various departments and agencies based upon their average cash balance for the period.

The Hawaii Revised Statutes (HRS) authorized the State Director of Finance to invest in obligations of or obligations guaranteed by, the U.S. Government, obligations of the State, federally-insured savings and checking accounts, time certificates of deposit and repurchase agreements with federally-insured financial institutions.

Accumulated Vacation and Sick Leave

Beginning July 1, 2004, eligible employees are credited with vacation at a rate of 168 hours per calendar year. Accumulation of such vacation credits is limited to 720 hours at calendar year-end. The governmental fund financial statements record expenditures when employees are paid for leave. The departmental financial statements present the cost of accumulated vacation leave as a liability. Liabilities for vacation pay are inventoried at the end of each accounting period and adjusted to current salary levels.

Beginning July 1, 2004, eligible employees are credited with sick leave at a rate of one and three-quarter days per month. Unused sick leave may be accumulated without limit but can be taken only in the event of illness or other incapacitation and is not convertible to pay upon termination of employment. Accordingly, accumulated sick leave is not included in the DLNR's statement of net assets or governmental fund balance sheet. However, an employee who retires or leaves government service in good standing with sixty days or more in unused sick leave is entitled to additional service credit in the Employee's Retirement System of the State of Hawaii (ERS). Accumulated sick leave as of June 30, 2008 was $22,417,254.

Intrafund and Interfund Transactions

Significant transfers of financial resources between activities and appropriations included within the same fund are eliminated. Transfers of revenues from funds authorized to receive them to funds authorized to expend them have been recorded as operating transfers in the financial statements.

All interfund transfers are reflected in the governmental fund financial statements but are eliminated in the departmental financial statements.

Inventory

Inventory of materials and supplies is recorded as expenditures when purchased.

Capital Assets

Capital assets, which include land, buildings, improvements, equipment and vehicles, are reported in the departmental financial statements. Capital assets are assets which have a cost of $5,000 or more at the date of acquisition and have an expected useful life of five or more years. Purchased and constructed capital assets are valued at historical cost or estimated historical cost. Donated fixed assets are recorded at their fair market value at the date of donation.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the departmental financial statements.

Capital assets are depreciated in the departmental financial statements on the straight-line method over the assets' estimated useful life. There is no depreciation recorded for land, certain land improvements and construction-in-progress. Generally, estimated useful lives are as follows:

Furniture and equipment	5 - 7 years
Vehicles	5 years
Buildings and land improvements	15-40 years

Grants

Federal awards made on the basis of entitlement periods are recorded as intergovernmental receivables and revenues when entitlement occurs. Federal reimbursement type awards are recorded as intergovernmental receivables and revenues when the related expenditures or expenses are incurred.

Use of Estimates

In preparing financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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.

2. BUDGETING AND BUDGETARY CONTROL

The DLNR's annual budget is prepared on the cash basis utilizing encumbrance accounting. 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 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.

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 accounting principles generally accepted in the United States of America. Since the budgetary basis differs from accounting principles generally accepted in the United States of America, budget and actual amounts in the statements of revenues and expenditures - budget and actual, are presented on the budgetary basis. A reconciliation of the general and major special revenue funds' revenues in excess of expenditures on a budgetary basis for the year ended June 30, 2008, to the general and major special revenue funds' revenues in excess of expenditures presented in conformity with accounting principles generally accepted in the United States of America, is set forth below.

Under Section 78-13 HRS, staff salaries and wages amounting to $1,236,941 and $448,205 in the general and major special revenue funds, respectively, as of June 30, 2008, are to be funded with monies budgeted for fiscal 2009. In addition, at June 30, 2008, the DLNR accrued expenditures of $141,183 and $670,107 in the general and major special revenue funds, respectively, for certain goods and services received through June 30, 2008, which the DLNR will fund with monies budgeted for fiscal 2009. Accordingly, these amounts are excluded from the statements of revenues and expenditures - budget and actual. For accounting purposes these amounts are reflected in the departmental and governmental fund financial statements at June 30, 2008 in accordance with accounting principles generally accepted in the United States of America.

The DLNR accrued certain salaries and wages as of June 30, 2007 and certain goods and services received through June 30, 2007, which the DLNR funded with monies budgeted for fiscal 2008. Accordingly, these amounts are included in the statements of revenues and expenditures - budget and actual, for the year ended June 30, 2008. These salaries, wages, goods and services aggregated $1,167,976 and $496,894 in the general and major special revenue funds, respectively.

The following schedule reconciles the general and major special revenue funds' budgetary amounts to the amounts presented in accordance with accounting principles generally accepted in the United States of America (GAAP basis) for the fiscal year ended June 30, 2008.

		Major Special Revenue Funds		
	General Fund	Federal Grant Fund	Water and Land Development Fund	Ocean-Based Recreation Fund
Excess of revenues over (under) expenditures - actual on budgetary basis	$ 3,254,534	$ 203,436	$(57,548)	$ 487,175
Current year's appropriations included in reserved for encumbrances at June 30, 2008	10,613,571	3,979,920	30,530	906,169
Expenditures for liquidation of prior years' encumbrances	(9,956,908)	(3,335,620)	-	(457,782)
Fiscal 2007 salaries and wages and other expenditures funded by fiscal 2008 budget	1,167,976	138,723	-	358,171
Fiscal 2008 salaries and wages funded by fiscal 2009 budget under Section 78-13 HRS	(1,236,941)	(141,763)	-	(306,442)
Fiscal 2008 expenditures funded by fiscal 2009 budget	(141,183)	(625,258)	(9,844)	(35,005)
Excess of revenues over (under) expenditures - GAAP basis	$ 3,701,049	$ 219,438	$(36,862)	$ 952,286

3. CASH AND SHORT-TERM CASH INVESTMENTS HELD IN STATE TREASURY

Cash and short-term cash investments includes monies in the State Treasury. The State Treasury maintains an investment pool for all state monies. Hawaii Revised Statutes (HRS) authorized the State Director of Finance to invest any monies of the State which in the Director's judgment are in excess of amounts necessary for meeting the immediate requirements of the State. Legally authorized investments include obligations of or guaranteed by the U.S. Government, obligations of the State, federally-insured savings and checking accounts, time certificates of deposit and repurchase agreements with federally-insured financial institutions.

Information relating to the bank balance, insurance and collateral of cash deposits is determined on a statewide basis and not for individual departments or divisions.

As of June 30, 2008, the carrying amount, which approximates the bank balance of the DLNR's cash and short-term cash investments, was $213,496,714 for its governmental funds and $12,224,759 for its fiduciary funds.

4. RECEIVABLES

At June 30, 2008, receivables for general leases and licenses for governmental funds consisted of the following:

Rents, fees and licenses	$ 944,787
Less allowance for doubtful accounts	(938,829)
	$ 5,958

The Department has installment agreements with certain lessees for accounts receivable of the trust and agency fund which aggregated $227,121 at June 30, 2008. These agreements provide for interest rates from 0% to 9.75% and payment terms from 1 to 30 years.

At June 30, 2008, receivables for general leases and licenses for fiduciary funds consisted of the following:

Rents, fees and licenses	$1,363,733
Less allowance for doubtful accounts	(528,866)
	$ 834,867

5. CAPITAL ASSETS

The changes in capital assets were as follows:

	Beginning Balance July 1, 2007	Additions, Adjustments and Transfers	Disposals, Adjustments and Transfers	Ending Balance June 30, 2008
Capital assets, not being depreciated -				
Land	$147,087,878	$10,100,000	$ -	$157,187,878
Land improvements	688,400	-	-	688,400
Construction-in-progress	75,563,275	39,075,134	(3,601,124)	111,037,285
Other assets	31,590	-	-	31,590
Total capital assets, not being depreciated	223,371,143	49,175,134	(3,601,124)	268,945,153
Capital assets, being depreciated -				
Buildings	31,985,829	31,256	-	32,017,085
Land improvements	80,278,457	143,935	3,232,385	83,654,777
Furniture and equipment	9,444,912	1,437,265	(89,723)	10,792,454
Motor vehicles	13,531,442	1,757,125	(219,059)	15,069,508
Total capital assets, being depreciated	135,240,640	3,369,581	2,923,603	141,533,824
Less: accumulated depreciation for -				
Buildings	(20,817,925)	(691,293)	-	(21,509,218)
Land improvements	(52,332,538)	(3,500,394)	-	(55,832,932)
Furniture and equipment	(7,201,940)	(719,643)	75,372	(7,846,211)
Motor vehicles	(11,483,848)	(1,155,631)	590,804	(12,048,675)
Total accumulated depreciation	(91,836,251)	(6,066,961)	666,176	(97,237,036)
Total capital assets, being depreciated, net	43,404,389	(2,697,380)	3,589,779	44,296,788
Capital assets, net	$266,775,532	$46,477,754	$ (11,345)	$313,241,941

Changes to capital assets consisted of the following:

Additions:	
Capital outlays and equipment purchases	$46,673,670
Disposals:	
Disposed capital assets, at cost	$ 677,521
Accumulated depreciation of disposed capital assets	(666,176)
Loss on disposal of capital assets	$ 11,345
Adjustments:	
Other income from donated value of acquired capital assets	$ 5,871,045

Depreciation expense for the year ended June 30, 2008, was charged to functions of the DLNR as follows:

Economic development	$ 294,993
Environmental protection	2,367,445
Culture and recreation	3,118,719
Public safety	169,854
Individual rights	66,686
Government-wide support	49,264
	$6,066,961

6. LONG-TERM OBLIGATIONS

The changes in long-term obligations were as follows:

	Accrued Vacation	General Obligation Bonds
Balance at July 1, 2007	$7,421,589	$5,662,985
Principal payments	-	(1,178,614)
Net increase in accrued vacation	703,796	-
Balance at June 30, 2008	$8,125,385	$4,484,371

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, 2008 are as follows:

$1,867,548 series BW bonds dated March 1, 1992; due in annual installments of $103,742; final payment on March 1, 2012; partially refunded $209,259 by the issuance of refunding General Obligation Bonds, series DG, dated June 15, 2005; interest at 5.50% to 6.40% payable semi-annually	$ 205,710
$1,648,311 series BZ bonds dated October 1, 1992; due in annual installments of $103,019 commencing October 1, 2000; final payment on October 1, 2012; interest at 5.00% to 6.00% payable semi-annually	515,097

$1,852,409 series CC refunding bonds dated February 1, 1993; due in annual installments of $132,323 through February 1, 2005 and $132,295 through final payment on February 1, 2009; interest at 3.85% to 7.75% payable semi-annually	$ 132,295
$1,218,020 series CH bonds dated November 1, 1993; due in annual installments of $67,673 through November 1, 2010 and $67,649 through final payment on November 1, 2013; interest at 4.10% to 6.00% payable semi-annually	405,942
$2,540,742 series CI refunding bonds dated November 1, 1993; due in annual installments of $158,674; final payment on November 1, 2010; interest at 4.00% to 5.00% payable semi-annually	475,908
$1,543,701 series CO bonds dated March 1, 1997; due in varying semi-annual installments; final payment on March 1, 2011; interest at 4.50% to 6.00% payable semi-annually	490,943
$129,212 series CN bonds dated March 1, 1997; due in varying annual installments commencing March 1, 2002 through final payment on March 1, 2017; partially refunded $11,135 by the issuance of refunding General Obligation Bonds, series CS, dated April 1, 1998; interest at 5.25% to 6.25% payable semi-annually; partially refunded $67,711 by the issuance of refunding General Obligation Bonds, series DG, dated June 15, 2005; interest at 6.00% to 6.25% payable semi-annually	7,710

$214 series CP bonds dated October 1, 1997; due in varying annual installments commencing April 1, 2002 through final payment on April 1, 2021; partially refunded $102 by the issuance of refunding General Obligation Bonds, series DG, dated June 15, 2005; interest at 5.00% payable semi-annually	$ 71
$85,000 series CR bonds dated April 1, 1998; due in varying annual installments commencing April 1, 2006 through final payment on April 1, 2021; partially refunded $63,399 by the issuance of refunding General Obligation Bonds, series DG, dated June 15, 2005; interest at 5.50% to 6.00% payable semi-annually	10,627
$1,489,544 series CS bonds dated April 1, 1998; due in varying annual installments commencing April 1, 2003 through final payment on April 1, 2009; interest at 5.00% to 5.25% payable semi-annually	247,809
$576,754 series CT bonds dated September 15, 1999; due in varying annual installments commencing September 1, 2005 through final payment on September 1, 2019; partially refunded $87,215 by the issuance of refunding General Obligation Bonds, series DG, dated June 15, 2005; interest at 5.25% to 5.625% payable semi-annually	66,721
$456,926 series CW bonds dated August 1, 2001; due in varying annual installments commencing August 1, 2005 through final payment on August 1, 2015; partially refunded $14,662 by the issuance of refunding General Obligation Bonds, series DG, dated June 15, 2005; interest at various rates payable semi-annually	340,997

$887,628 series CY bonds dated February 2, 2002; due in varying annual installments commencing February 1, 2007 through final payment on February 1, 2015; partially refunded $4,309 by the issuance of refunding General Obligation Bonds, series DG, dated June 15, 2005; interest at various interest rates payable semi-annually	$ 719,577
$396,612 series DB bonds dated September 16, 2003; due in varying annual installments commencing September 1, 2008 through final payment on September 1, 2016; interest at 5.00% to 5.25% payable semi-annually	396,612
$468,352 series DG bonds dated June 15, 2005; due in varying annual installments commencing July 1, 2009 through final payment on July 1, 2017; interest at 5.00% payable semi-annually	468,352
	$4,484,371

Interest paid by the DLNR during the fiscal year ended June 30, 2008, approximated $238,000.

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

Fiscal year ending June 30,	Principal	Interest	Total
2009	$1,060,000	$180,186	$1,240,186
2010	736,441	130,095	866,536
2011	828,803	95,553	924,356
2012	518,327	60,758	579,085
2013	416,846	38,046	454,892
2014	327,296	24,715	352,011
2015	273,854	15,688	289,542
2016	146,275	8,121	154,396
2017	113,472	4,429	117,901
2018	63,042	1,451	64,493
2019	5	1	6
2020	5	-	5
2021	5	-	5
Total	$4,484,371	$559,043	$5,043,414

7. RETIREMENT BENEFITS

Plan Description - All eligible employees of the State and counties are required by HRS Chapter 88 to become members of the Employees' Retirement System of the State of Hawaii (ERS), a cost-sharing multiple-employer public employee retirement plan. The ERS provides retirement benefits as well as death and disability benefits. The ERS is governed by a Board of Trustees. All contributions, benefits, and eligibility requirements are established by HRS Chapter 88 and can be amended by legislative action. The ERS issues a comprehensive annual financial report that is available to the public. That report may be obtained by writing to the ERS at 201 Merchant Street, Suite 1400, Honolulu, Hawaii 96813.

Prior to June 30, 1984, the plan consisted of only a contributory option. In 1984, legislation was enacted to add a new noncontributory option for members of the ERS who are also covered under Social Security. Police officers, firefighters, judges, elected officials, and persons employed in positions not covered by Social Security are precluded from the noncontributory option. The noncontributory option provides for reduced benefits and covers most eligible employees hired after June 30, 1984. Employees hired before that date were allowed to continue under the contributory option or to elect the new noncontributory option and receive a refund of employee contributions. All benefits vest after five and ten years of credited service under the contributory and non-contributory options, respectively.

Both options provide a monthly retirement allowance based on the employee's age, years of credited service, and average final compensation (AFC). The AFC is the average salary earned during the five highest paid years of service, including the vacation payment, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after that date is based on the three highest paid years of service, excluding the vacation payment.

On July 1, 2006, a new hybrid contributory plan became effective pursuant to Act 179, SLH of 2004. Members in the hybrid plan are eligible for retirement at age 62 with 5 years of credited service or age 55 and 30 years of credited service. Members receive a benefit multiplier of 2% for each year of credited service in the hybrid plan. The benefit payment options are similar to the current contributory plan. Almost 58,000 current members, all members of the noncontributory plan and certain members of the contributory plan, were eligible to join the new hybrid plan. Most of the new employees hired from July 1, 2006 will be required to join the hybrid plan.

Funding Policy - Most covered employees of the contributory option are required to contribute 7.8% of their salary. Police officers, firefighters, investigators of the departments of the County Prosecuting Attorney and the Attorney General, narcotics enforcement investigators, and public safety investigators are required to contribute 12.2% of their salary. The funding method used to calculate the total employer contribution requirement is the Entry Age Normal Actuarial Cost Method. Effective July 1, 2005, employer contribution rates are a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liability.

The State's contribution requirements as of June 30, 2007, 2006, and 2005 were approximately $341,896,000, $318,144,000 and $251,685,000, respectively. The State contributed 95.8%, 100%, and 100% of its required contributions for those years. Covered payroll for the fiscal year ended June 30, 2007 was approximately $2,484,490,000.

Post-Retirement Health Care and Life Insurance Benefits - In addition to providing pension benefits, the State, pursuant to HRS Chapter 87, provides certain health care and life insurance benefits to all qualified employees.

For employees hired before July 1, 1996, the State pays the entire monthly health care premium for employees retiring with ten or more years of credited service, and 50% of the monthly premium for employees retiring with fewer than ten years of credited service.

For employees hired after June 30, 1996, and who retire with fewer 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 retired employees' monthly Medicare or non-Medicare premium. For employees hired after June 30, 1996, and who retire with at least 15 years but fewer than 25 years of service, the State pays 75% of the retired employees' monthly Medicare or non-Medicare premium; for those retiring with over 25 years of service, the State pays the entire health care premium.

There are currently approximately 37,000 state retirees receiving such benefits. Free life insurance coverage for retirees and free dental coverage for dependents under age 19 are also available. Retirees covered by the medical portion of Medicare are eligible to receive reimbursement of the basic medical coverage premium. Contributions are financed on a pay-as-you-go basis. During fiscal 2007, expenditures of $242,697,000 were recognized for post-retirement health care and life insurance benefits, approximately $34,079,000 of which is attributable to the Component Units.

Effective July 1, 2003, the Hawaii Employer-Union Health Benefit Trust Fund (EUTF) replaced the Hawaii Public Employees Health Fund under Act 88, SLH of 2001. The EUTF was established to provide a single delivery system of health benefits for state and county employees, retirees, and their dependents.

Cost of Retirement Benefits - The DLNR's general fund share of the retirement system expense for the fiscal year ended June 30, 2008 was included as an item to be expended by the Department of Budget and Finance, State of Hawaii, and is not reflected in the DLNR's financial statements. The DLNR's special revenue funds, expendable trust funds and capital projects fund contributed approximately $2,178,917 to the ERS for the fiscal year ended June 30, 2008.

8. COMMITMENTS AND CONTINGENCIES

Litigation - The DLNR is involved in several lawsuits and complaints which management believes arose in the normal course of operations. Based on discussions with counsel, management has ascertained that lawsuits and complaints against the State of Hawaii are typically paid through an appropriation from the General Fund of the State of Hawaii. Accordingly, management is of the opinion that the outcome of these lawsuits and complaints will not have a material adverse effect on the financial position of the DLNR.

Insurance - Insurance coverage is maintained at the State level. The State is substantially self-insured for all perils including workers' compensation. All payments for workers' compensation are reflected in the respective department or agency's financial statements. Workers' compensation payments made by the DLNR for the fiscal year ended June 30, 2008 approximated $201,700 and are reflected as expenditures of the general and special revenue funds. Amounts related to unpaid workers' compensation are reflected in the Statement of Net Assets. Expenditures for other insurance claims are made by the Department of Accounting and General Services, State of Hawaii, and are not reflected in the DLNR's financial statements. Workers' compensation benefit claims reported, as well as incurred but not reported were reviewed at year end. In the opinion of management, the estimated losses from these claims are not material.

Deferred Compensation Plan - In 1983, the State established a deferred compensation plan which enables State employees to defer a portion of their compensation. The Department of Human Resources Development, State of Hawaii, has the fiduciary responsibility of administering the plan. The plan assets are protected from claims of the State's creditors and from diversion to any uses other than paying benefits to participants and beneficiaries. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency.

Due to State Treasury - Included in the special revenue funds are approximately $10,331,000 of federal fund reimbursements received or receivable by the DLNR for program expenditures that were paid with previous year's general operating funds and $514,000 of federal fund reimbursements received by the DLNR for the acquisition or construction of major capital facilities that were paid with the proceeds of general obligation bonds. Under Act 328 of the 1997 Regular Session, such monies are owed to the State Treasury.

Other - At June 30, 2008, substantially all of the reserve for encumbrances in the capital projects fund relates to construction contracts.

9. SMALL BOAT HARBORS AND BOAT RAMPS PROGRAM

During the year ended June 30, 2008, the DLNR's special revenue funds were charged by the Department of Transportation, State of Hawaii, approximately $90,000 for services rendered during the year in connection with the Small Boat Harbors and Boat Ramps Program. At June 30, 2008, the DLNR owed the Department of Transportation, State of Hawaii, approximately $21,000 for these services.

10. CENTRAL SERVICE AND ADMINISTRATION FEES

During the fiscal year ended June 30, 2008, the DLNR's special revenue funds were charged by the Department of Budget and Finance, State of Hawaii, approximately $2,512,000 in central service and administration fees. At June 30, 2008, the DLNR owed the Department of Budget and Finance, State of Hawaii, approximately $1,187,000 in unpaid fees.

11. DUE TO OTHER STATE AGENCIES

For the fiscal year ended June 30, 2004, the DLNR recorded a liability of $6,180,795 in its Water and Land Development Fund, owed to the State of Hawaii (State), which in a previous year was reversed as it was believed that there was no further obligation to reimburse the State for the amount. However, the DLNR determined that the liability will continue to be reported until the status of this obligation can be formally resolved with the State. The liability is related to advances from the State during the 1950's and 1960's for the development of water and irrigation projects. The projects were completed and subsequently transferred to the Department of Agriculture, State of Hawaii; however, the liability remained with the DLNR. The DLNR's attempts to resolve this matter with the State have not been successful but otherwise, the DLNR has never been notified of any requirement to repay the advances. This resulted in a $6,180,795 restatement to the July 1, 2003 unreserved fund balance of the Governmental Funds.

In addition, 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, 2008, DLNR has recorded a liability to OHA and the State of Hawaii in the Ocean-Based Recreation Fund of approximately $2,385,000 for amounts due from ceded land revenues. The portion payable to the State amounts to approximately $1,187,000 and is reported under due to State of Hawaii.

12. INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2008 consisted of the following:

Transfer To	Transfer From (To)						
	General Fund	Federal Grant Fund	Water and Land Development	Ocean-Based Recreation Fund	Capital Projects Fund	Nonmajor Governmental	Total
Federal Grant Fund	$ 776,507	$ -	$ -	$ 623,232	$ -	$ 166,006	$ 1,565,745
Water and Land Development	-	-	-	-	-	402,560	402,560
Capital Projects Fund	-	870,000	-	-	-	380,000	1,250,000
Nonmajor Governmental	1,000,000	166,006	-	1,259,419	-	9,955,364	12,380,789
Other Transfer, Net; Major and Nonmajor Governmental	-	(166,006)	(402,560)	(623,232)	(1,250,000)	(12,742,879)	(15,184,677)
Total	$1,776,507	$ 870,000	$(402,560)	$1,259,419	$(1,250,000)	$ (1,838,949)	$ 414,417

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.

13. NOTE PAYABLE TO STATE TREASURY

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, approved an interest-free loan of up to $1,000,000 to DLNR whereby DBF would advance funds to DLNR for the sole purpose of paying project costs subject to federal reimbursement. During the year, DBF approved an additional interest-free loan of up to $2,000,000 to DLNR for the same purpose. The loans mature in January 2009 and as of June 30, 2008, reflected an outstanding balance of $985,575.

PART III

SUPPLEMENTAL SECTION

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2008

	Special Land Development Fund	Land Conservation Fund	Bureau of Conveyances Fund	Commercial Fisheries Fund	Forest Stewardship Fund	Aquatic Resources Fund	Forests and Wildlife Fund	Water Resources Fund	Conservation Resource Enforcement Fund	Natural Area Reserves Fund	Historical Preservation Fund	Subtotal Carried Forward
ASSETS												
Cash and short-term cash investments held in State Treasury	$11,242,891	$12,131,985	$711,175	$390,809	$4,902,179	$89,239	$2,166,808	$1,357,066	$ 15,898	$16,121,290	$14,581	$49,143,921
Receivables:												
General leases and licenses, net of allowance for losses	-	-	-	-	-	-	-	-	-	-	-	-
Due from Federal Grant Fund	35,202	-	-	-	41,207	-	237,370	-	-	-	-	313,779
Total assets	$11,278,093	$12,131,985	$711,175	$390,809	$4,943,386	$89,239	$2,404,178	$1,357,066	$ 15,898	$16,121,290	$14,581	$49,457,700
LIABILITIES												
Vouchers and contracts payable	$ 141,248	$ 829	$ 74,022	$ 11,306	$ 848,192	$ -	$ 528,581	$ 37,020	$ 26,594	$ 1,771,477	$ -	$ 3,439,269
Accrued wages and employee benefits payable	209,477	-	182,249	3,100	36,595	-	-	14,077	74,526	83,849	3,245	607,118
Due to other State agencies	149,041	-	42,231	-	-	-	-	-	-	83,767	-	275,039
Deferred revenue	340,722	-	-	-	11,050	-	-	1,274	-	-	-	353,046
Security deposits	-	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	840,488	829	298,502	14,406	895,837	-	528,581	52,371	101,120	1,939,093	3,245	4,674,472
FUND BALANCES												
Reserved for:												
Encumbrances	1,585,722	7,814,470	164,293	67,536	1,320,609	-	1,687,353	105,325	21,462	3,173,489	-	15,940,259
Receivables	35,202	-	-	-	41,207	-	237,370	-	-	-	-	313,779
Unexpended Federal Awards	-	-	-	-	-	-	-	-	-	-	-	-
Total reserved fund balances	1,620,924	7,814,470	164,293	67,536	1,361,816	-	1,924,723	105,325	21,462	3,173,489	-	16,254,038
Unreserved:												
Unreserved reported in nonmajor - Special Revenue Funds	8,816,681	4,316,686	248,380	308,867	2,685,733	89,239	(49,126)	1,199,370	(106,684)	11,008,708	11,336	28,529,190
Total unreserved fund balances	8,816,681	4,316,686	248,380	308,867	2,685,733	89,239	(49,126)	1,199,370	(106,684)	11,008,708	11,336	28,529,190
Total fund balances	10,437,605	12,131,156	412,673	376,403	4,047,549	89,239	1,875,597	1,304,695	(85,222)	14,182,197	11,336	44,783,228
Total liabilities and fund balances	$11,278,093	$12,131,985	$711,175	$390,809	$4,943,386	$89,239	$2,404,178	$1,357,066	$ 15,898	$16,121,290	$14,581	$49,457,700

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2008

	Subtotal Brought Forward	Na Ala Hele Park Development Fund	Wildlife Revolving Fund	Sport-Fish Restoration Fund	Park Development Operations Fund	State Parks Fund	Dam and Reservoir Safety Fund	Natural Physical Environment Fund	Preservation of Endangered Plants Fund	Kaho'olawe Rehabilitation Trust Fund	Donations, Gifts and Grants Fund	OHA Kikakakeokea Trust Fund	Endangered Species Trust Fund	Assistance in Managing Land Funds	Total Other Governmental Funds
ASSETS															
Cash and short-term cash investments held in State Treasury	$49,143,921	$853,175	$ 13,222	$100,202	$1,288,354	$1,034,018	$949,585	$293,799	$3,287	$20,401,218	$28,800	$15,227	$635,319	$140,583	$74,900,710
Receivables:															
General leases and licenses, net of allowance for losses	-	-	-	-	-	5,958	-	-	-	-	-	-	-	-	5,958
Due from Federal Grant Fund	313,779	-	-	-	-	-	-	-	-	-	-	-	-	-	313,779
Total assets	$49,457,700	$853,175	$ 13,222	$100,202	$1,288,354	$1,039,976	$949,585	$293,799	$3,287	$20,401,218	$28,800	$15,227	$635,319	$140,583	$75,220,447
LIABILITIES															
Vouchers and contracts payable	$ 3,439,269	$ 21,756	$ 6,987	$ 4,398	$ -	$ 198,581	$ 40,000	$ 3,013	$ -	$ 720,730	$28,800	$ -	$ 24,360	$ 17,232	$ 4,505,126
Accrued wages and employee benefits payable	607,118	15,762	15,277	1,295	-	94,006	-	27,921	-	142,977	-	-	-	-	904,356
Due to other State agencies	275,039		-	-	-	-	-	-	-	-	-	-	-	-	275,039
Deferred revenue	353,046	-	-	-	-	1,963	-	-	-	-		-	-	-	355,009
Security deposits	-	-	-	-	-	-	-	-	-	-	-	-	39,600	-	39,600
Total liabilities	4,674,472	37,518	22,264	5,693	-	294,550	40,000	30,934	-	863,707	28,800	-	63,960	17,232	6,079,130
FUND BALANCES															
Reserved for:															
Encumbrances	15,940,259	63,390	1,243	4,721	109,838	651,742	270,000	13	-	1,856,204	-	10,034	146,045	59,008	19,112,497
Receivables	313,779	-	-	-	-	5,958	-	-	-	-	-	-	-	-	319,737
Unexpended Federal awards	-	-	-	-	-	-	-	-	-	17,681,307	-	-	-	-	17,681,307
Total reserved fund balances	16,254,038	63,390	1,243	4,721	109,838	657,700	270,000	13	-	19,537,511	-	10,034	146,045	59,008	37,113,541
Unreserved:															
Unreserved reported in nonmajor - Special Revenue Funds	28,529,190	752,267	(10,285)	89,788	1,178,516	87,726	639,585	262,852	3,287	-	-	5,193	425,314	64,343	32,027,776
Total unreserved fund balances	28,529,190	752,267	(10,285)	89,788	1,178,516	87,726	639,585	262,852	3,287	-	-	5,193	425,314	64,343	32,027,776
Total fund balances	44,783,228	815,657	(9,042)	94,509	1,288,354	745,426	909,585	262,865	3,287	19,537,511	-	15,227	571,359	123,351	69,141,317
Total liabilities and fund balances	$49,457,700	$853,175	$ 13,222	$100,202	$1,288,354	$1,039,976	$949,585	$293,799	$3,287	$20,401,218	$28,800	$15,227	$635,319	$140,583	$75,220,447

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Combining Statement Of Revenues, Expenditures And Changes In Fund Balances -
Nonmajor Governmental Funds
For The Year Ended June 30, 2008

	Special Land Development Fund	Land Conservation Fund	Bureau of Conveyances Fund	Commercial Fisheries Fund	Forest Stewardship Fund	Aquatic Resources Fund	Forests and Wildlife Fund	Water Resources Fund	Conservation Resource Enforcement Fund	Natural Area Reserves Fund	Historical Preservation Fund	Subtotal Carried Forward
Revenues												
Intergovernmental revenue	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
General leases, licenses and permits	7,300,139	-	4,068,788	216,406	157,420	-	-	56,999	-	-	82,827	11,882,579
Taxes, fuel and others	-	3,840,802	-	-	-	-	-	-	-	9,603,905	-	13,444,707
Interest	618,685	421,908	44,598	16,387	93,353	4,167	79,128	45,348	1,328	885,704	238	2,210,844
Other	89,710	7,952	4,068	-	3,372	-	-	1,020	22,025	5,280	-	133,427
Total revenues	8,008,534	4,270,662	4,117,454	232,793	254,145	4,167	79,128	103,367	23,353	10,494,889	83,065	27,671,557
Expenditures												
Current:												
Economic development	-	-	-	182,133	2,220,195	-	-	-	-	-	-	2,402,328
Environmental protection	-	-	-	-	-	-	2,665,763	454,281	1,192,216	8,765,612	-	13,077,872
Culture and recreation	-	-	-	-	-	-	-	-	-	-	87,826	87,826
Public safety	-	-	-	-	-	-	-	-	-	-	-	-
Individual rights	-	-	3,979,102	-	-	-	-	-	-	-	-	3,979,102
Government-wide support	4,797,320	186,846	-	-	-	-	-	-	-	-	-	4,984,166
Total expenditures	4,797,320	186,846	3,979,102	182,133	2,220,195	-	2,665,763	454,281	1,192,216	8,765,612	87,826	24,531,294
Excess of revenues over (under) expenditures	3,211,214	4,083,816	138,352	50,660	(1,966,050)	4,167	(2,586,635)	(350,914)	(1,168,863)	1,729,277	(4,761)	3,140,263
Other financing sources (uses)												
Operating transfers in	5,832,867	4,844,225	546,182	279,751	5,816,883	85,335	2,880,870	1,417,563	1,384,515	13,479,374	22,398	36,589,963
Operating transfers out	(8,115,692)	(4,844,225)	(595,512)	(294,479)	(838,768)	(85,335)	(30,870)	(679,656)	(192,515)	(21,252,928)	(7,398)	(36,937,378)
Total other financing sources (uses)	(2,282,825)	-	(49,330)	(14,728)	4,978,115	-	2,850,000	737,907	1,192,000	(7,773,554)	15,000	(347,415)
Net change in fund balances	928,389	4,083,816	89,022	35,932	3,012,065	4,167	263,365	386,993	23,137	(6,044,277)	10,239	2,792,848
Fund balances at July 1, 2007	9,509,216	8,047,340	323,651	340,471	1,035,484	85,072	1,612,232	917,702	(108,359)	20,226,474	1,097	41,990,380
Fund balances at June 30, 2008	$10,437,605	$12,131,156	$ 412,673	$376,403	$4,047,549	$ 89,239	$1,875,597	$1,304,695	$ (85,222)	$ 14,182,197	$ 11,336	$44,783,228

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Combining Statement Of Revenues, Expenditures And Changes In Fund Balances -
Nonmajor Governmental Funds
For The Year Ended June 30, 2008

	Subtotal Brought Forward	Na Ala Hele Park Development Fund	Wildlife Revolving Fund	Sport-Fish Restoration Fund	Park Development Operations Fund	State Parks Fund	Dam and Reservoir Safety Fund	Natural Physical Environment Fund	Preservation of Endangered Plants Fund	Kaho'olawe Rehabilitation Trust Fund	Donations, Gifts and Grants Fund	OHA Kikakakeokea Trust Fund	Endangered Species Trust Fund	Assistance in Managing Land Funds	Total Other Governmental Funds
Revenues															
Intergovernmental revenues	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,057,769	$ -	$ -	$ -	$ -	$ 1,057,769
General leases, licenses and permits	11,882,579	83,421	264,371	34,468	-	2,027,554	75	-	-	-	-	-	-	-	14,292,468
Taxes, fuel and others	13,444,707	450,000	-	-	1,800,000	-	-	-	-	-	-	-	-	-	15,694,707
Interest	2,210,844	35,092	4,257	4,375	-	140,381	-	16,732	123	1,067,762	-	5,193	19,757	8,677	3,513,193
Other	133,427	2,500	1,450	2,160	-	-	-	6,728	-	177,334	28,800	-	274,392	228,000	854,791
Total revenues	27,671,557	571,013	270,078	41,003	1,800,000	2,167,935	75	23,460	123	2,302,865	28,800	5,193	294,149	236,677	35,412,928
Expenditures															
Current:															
Economic development	2,402,328	-	-	-	-	-	-	-	-	-	-	-	-	226,201	2,628,529
Environmental protection	13,077,872	-	-	-	-	-	-	469,364	-	5,671,137	54,820	-	67,078	-	19,340,271
Culture and recreation	87,826	436,314	372,842	35,911	503,647	3,316,792	-	-	-	-	-	-	-	-	4,753,332
Public safety	-	-	-	-	-	-	90,490	-	-	-	-	-	-	-	90,490
Individual rights	3,979,102	-	-	-	-	-	-	-	-	-	-	-	-	-	3,979,102
Government-wide support	4,984,166	-	-	-	-	-	-	-	-	-	-	46,320	-	-	5,030,486
Total expenditures	24,531,294	436,314	372,842	35,911	503,647	3,316,792	90,490	469,364	-	5,671,137	54,820	46,320	67,078	226,201	35,822,210
Excess of revenues over (under) expenditures	3,140,263	134,699	(102,764)	5,092	1,296,353	(1,148,857)	(90,415)	(445,904)	123	(3,368,272)	(26,020)	(41,127)	227,071	10,476	(409,282)
Other financing sources (uses)															
Operating transfers in	36,589,963	648,391	35,467	84,002	2,122	756,742	1,000,000	723,954	3,164	20,600,000	-	168,575	376,950	10,589	60,999,919
Operating transfers out	(36,937,378)	(648,391)	(25,467)	(84,002)	-	(194,258)	-	(94,286)	(3,164)	(20,600,000)	-	(168,575)	(394,860)	(10,589)	(59,160,970)
Total other financing sources (uses)	(347,415)	-	10,000	-	2,122	562,484	1,000,000	629,668	-	-	-	-	(17,910)	-	1,838,949
Net change in fund balances	2,792,848	134,699	(92,764)	5,092	1,298,475	(586,373)	909,585	183,764	123	(3,368,272)	(26,020)	(41,127)	209,161	10,476	1,429,667
Fund balances at July 1, 2007	41,990,380	680,958	83,722	89,417	(10,121)	1,331,799	-	79,101	3,164	22,905,783	26,020	56,354	362,198	112,875	67,711,650
Fund balances at June 30, 2008	$ 44,783,228	$ 815,657	$ (9,042)	$ 94,509	$1,288,354	$ 745,426	$ 909,585	$ 262,865	$ 3,287	$ 19,537,511	$ -	$ 15,227	$ 571,359	$123,351	$ 69,141,317

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

Federal Grantor/ Pass-through Grantor/Program Title	Federal CFDA Number	Grant Number	Grant Award	Federal Expenditures
U.S. Department of Agriculture				
Animal and Plant Health Inspection Service -				
Chronic Wasting Disease Surveillance & Mgt	10.025	06-9715-1400-CA	$ 48,000	$ 7,440
Chronic Wasting Disease Surveillance & Mgt	10.025	07-9715-1400-CA	48,000	16,193
			96,000	23,633
Avian Influenza Surveillance Program	10.028	06-7100-0158-CA	100,000	-
Avian Influenza Surveillance Program	10.028	07-7100-0158-CA	75,000	62,453
			175,000	62,453
Forest Service -				
Cooperative Fire Assistance	10.664	05-DG-11052012-135	620,000	60,000
Wildland Urban Interface	10.664	06-DG-11052012-172	646,300	275,500
Cooperative Fire Protection Program	10.664	06-DG-11052012-173	575,000	199,900
Conservation Education	10.664	06-DG-11052021-217	15,000	100
Cooperative Fire Protection Program	10.664	07-DG-11052012-109	600,000	433,333
Wildland Urban Interface	10.664	07-DG-11052012-110	77,500	77,400
Wildland Urban Interface	10.664	08-DG-11052012-118	584,806	-
Cooperative Fire Protection Program	10.664	08-DG-11052012-160	520,000	-
			3,638,606	1,046,233
Rural Development Through Forestry	10.672	05-DG-11052021-071	70,650	1,459
Urban & Community Forestry	10.675	04-DG-11052021-091	428,000	7,890
Urban & Community Forestry	10.675	05-DG-11052021-110	348,000	32,326
Urban & Community Forestry	10.675	06-DG-11052021-212	223,000	72,175
Urban & Community Forestry	10.675	07-DG-11052021-176	268,000	169,829
			1,267,000	282,220
Forest Legacy Program	10.676	06-DG-11052021-223	30,000	-
Forest Legacy Program	10.676	06-DG-11052021-245	20,000	17,871
Forest Legacy Program	10.676	07-DG-11052021-175	30,000	6,819
Forest Legacy - Kealakekua Ranch Phase I	10.676	07-CA-11052021-178	2,000,000	-
			2,080,000	24,690
Forest Lands Enhancement Program	10.677	05-DG-11052021-124	62,300	-
Forest Lands Enhancement Program	10.677	06-DG-11052021-210	25,000	847
			87,300	847
Forest Stewardship Program	10.678	04-DG-11052021-088	197,600	23,345
Forest Stewardship Program	10.678	06-DG-11052021-209	113,000	-
Forest Stewardship Program	10.678	07-DG-11052021-159	105,000	91,000
Forest Stewardship Program - LiDar Project	10.678	07-DG-11052021-208	22,500	3,798
			438,100	118,143
Forest Health Management	10.680	06-DG-11052021-158	75,000	41,094
Evaluation Monitoring: New Rust Disease on Myrtaceae	10.680	06-DG-11052021-201	52,000	27,508
Control & Evaluation of Invasive Species in Hawaii	10.680	06-DG-11052021-202	515,000	349,406
Forest Health Protection	10.680	07-DG-11052021-174	75,000	49,822

The above schedule is prepared on the cash basis. Under this basis, expenditures are recognized when paid.

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

Federal Grantor/ Pass-through Grantor/Program Title	Federal CFDA Number	Grant Number	Grant Award	Federal Expenditures
U.S. Department of Agriculture (Continued)				
Forest Health Protection - Invasive Plants	10.680	07-DG-11052021-203	$ 437,000	$ 201,426
Forest Health Monitoring Aerial Survey	10.680	07-DG-11052021-136	40,000	-
			1,194,000	669,256
Natural Resources Conservation Service -				
Wildlife Habitat Incentives Program	10.UNK	72-9251-5A-163	80,642	-
Kanaha Pond Wetland Reserve Program	10.UNK	66-9251-6-719	109,350	-
Kure Atoll	10.UNK	72-95251-6A-119	143,400	24,506
Pouhala Marsh	10.UNK	72-95251-6A-120	102,000	7,392
Hamakua Marsh	10.UNK	72-95251-6A-138	89,625	6,801
Kihapai Wetland	10.UNK	66-9251-5-681	99,994	-
Kawaiele Wetland	10.UNK	72-9251-0-7073	251,850	-
Puu Mali Watershed	10.UNK	72-9251-0-706Q	344,250	40,500
			1,221,111	79,199
Total U.S. Department of Agriculture			10,267,767	2,308,133
U.S. Department of Commerce				
National Oceanic and Atmospheric Administration -				
Web-Based Internet Commercial Marine Licensing System	11.407	NA04NMF4070127	71,636	17,932
Web-Based Internet Commercial Marine Licensing System	11.407	NA07NMF4070008	48,659	4,049
			120,295	21,981
Hawaii Coral Reef Management Program	11.419	NA04NOS4190111	450,000	155,620
Acquisition of 1,129 Acres on Oahu Known as Pupukea-Paumalu	11.419	NA04NOS4190196	1,978,955	1,978,955
Hawaii Coral Reef Management Program	11.419	NA05NOS4191014	420,768	102,554
Hawaii Coral Reef Management Program	11.419	NA06NOS4190101	513,000	221,726
Hawaii Coral Reef Management Program	11.419	NA07NOS4190054	593,000	85,621
			3,955,723	2,544,476
Hawaii Coral Reef Monitoring Program	11.426	NA06NOA4260113	129,999	121,037
Marine Sanctuary Program	11.429	MOA-2007-027	350,860	205,622
Collect & Provide Fisheries Data Under the Western Pacific Fisheries Information Network	11.437	NA04NMF4370142	311,000	27,575
Hawaii Marine Recreational Fishing Survey	11.437	NA06NMF4370201	143,005	44
Hawaii Marine Recreational Fishing Survey	11.437	NA07NMF4370066	145,000	144,900
Western Pacific Fishery Information Network	11.437	NA07NMF4370065	249,000	87,255
			848,005	259,774
Fisheries Disaster Relief Program	11.452	NA03NMF4520452	5,000,000	665,718
Assessment of Carijoa Riisei	11.463	NA06NMF4630219	50,000	7,874
Assessment of Carijoa Riisei	11.463	NA07NMF4630181	50,000	2,557
			100,000	10,431

The above schedule is prepared on the cash basis. Under this basis, expenditures are recognized when paid.

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

Federal Grantor/ Pass-through Grantor/Program Title	Federal CFDA Number	Grant Number	Grant Award	Federal Expenditures
U.S. Department of Commerce (Continued)				
Conservation of Hawaiian Monk Seals & Sea Turtles	11.472	NA07NMF4720055	$ 152,840	$ 57,754
Kaipukaiaola - A Partnership to Provide Meaningful Outdoor Experience to Pre-service & In-service Teachers About Kaho'olawe	11.473	NA06NOS4730014	99,900	-
Investigating Deep Coral Reefs of Hawaii	11.478	NA07NOS4780189	134,700	19,757
2006 Joint Enforcement Agreement	11.UNK	-	154,153	7,958
Fine Scale Habitat Characterization VENDOR	11.UNK	DG-133C04SE1197	100,000	31,591
2007 Joint Enforcement Agreement	11.UNK	-	299,989	-
			554,142	39,549
Total U.S. Department of Commerce			11,446,464	3,946,099
U.S. Department of Defense				
Department of the Navy - Kaho'olawe Rehabilitation Trust	12.UNK	12.UNK	44,014,410	5,129,447
Total U.S. Department of Defense			44,014,410	5,129,447
U.S. Department of the Interior				
Fish and Wildlife Service -				
Recreational Boating Kikiaola Ramp	15.605	F-19-B-28	337,500	337,500
Replacement of Comfort Station at Heeia-Kea Small Boat Harbor	15.605	F-19-B-33	187,500	3,353
Pohoiki Boat Ramp & Loading Dock	15.605	F-19-B-35	97,500	12,958
Loading Dock Replacement at the Waianae Small Boat Harbor, Waianae, Oahu	15.605	F-19-B-36	172,500	117,563
Waikaea Boat Ramp Dredging & Revetment Repair	15.605	F-19-B-38	45,000	3,767
Design for the Maintenance Dredging & Minor Loading Dock Repair at Kihei & Mala Boat Ramps, Maui, Hawaii	15.605	F-19-B-39	187,500	404,723
Coordination of Statewide Sports Fish Restoration Program	15.605	F-13-C-31	79,500	4,271
Statewide Freshwater Fisheries Technical Guidance	15.605	F-15-T-31	24,000	2,442
Statewide Marine Fisheries Technical Guidance	15.605	F-16-T-31	60,000	6,584
Aquatic Resources Education	15.605	F-18-AE-20	217,500	100
Statewide Freshwater Fisheries Development	15.605	F-11-D-31	261,000	100
Freshwater Fisheries Research & Surveys	15.605	F-14-R-31	181,875	3,355
Statewide Marine Fisheries Development	15.605	F-12-D-31	699,000	19,336
Statewide Marine Fisheries Research & Surveys	15.605	F-17-R-31	986,977	198,358
Aquatic Resources Education	15.605	F-18-AE-21	300,000	280,315
Statewide Freshwater Fisheries Development	15.605	F-11-D-32	261,000	258,900
Statewide Marine Fisheries Development	15.605	F-12-D-32	730,000	556,519
Coordination of Statewide Sports Fish Restoration Program	15.605	F-13-C-32	78,750	48,424
Statewide Freshwater Fisheries Technical Guidance	15.605	F-15-T-32	24,000	17,668

The above schedule is prepared on the cash basis. Under this basis, expenditures are recognized when paid.

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

Federal Grantor/ Pass-through Grantor/Program Title	Federal CFDA Number	Grant Number	Grant Award	Federal Expenditures
U.S. Department of the Interior (Continued)				
Statewide Marine Fisheries Technical Guidance	15.605	F-16-T-32	$ 63,000	$ 52,682
Statewide Marine Fisheries Research & Surveys	15.605	F-17-R-32	1,188,000	980,964
Freshwater Fisheries Research & Surveys	15.605	F-14-R-32	243,750	228,219
			6,425,852	3,538,101
Hawaii Year One Aquatic Invasive Species	15.608	122004G029	199,926	16,416
Updating Hunter Education Classes	15.608	122004G017	30,000	-
Mauna Kea Dry Forest Restoration	15.608	122006G014	110,000	247
Avian Influenza Surveillance Program	15.608	122007J001	221,600	52,667
Invasive Species Early Detection	15.608	122006G013	4,500	937
Investigation of Barn Owls as Predators	15.608	122007J003	8,715	-
Regional Site Fidelity of Migratory Shorebirds	15.608	2006-0181-008	15,575	-
Mauna Kea Dry Forest Restoration	15.608	2006-0094-015	25,000	11,591
Habitattitude Program for Outer Main Hawaiian Islands	15.608	601817-G287	14,576	170
			629,892	82,028
Conservation Education Facility, Waimea	15.611	FW-1-DE-1	857,000	18,496
Conservation Management - Kauai Hunting Units	15.611	122004G018	77,500	27,201
Mokihana Ridge - Waialae Trail Project	15.611	122004G030	20,000	(3)
Hawaii Hunter Education Program	15.611	W-21-HS-30	430,875	21,343
Hawaii Non-Game Management Program	15.611	W-23-NG-12	215,800	16,783
Hawaii Game Management Program	15.611	W-22-G-12	900,975	253,593
Hawaii Game Management Program	15.611	W-22-G-13	800,000	650,206
Hawaii Non-Game Management Program	15.611	W-23-NG-13	230,710	212,833
Hawaii Hunter Education Program	15.611	W-21-HS-31	554,375	444,812
			4,087,235	1,645,264
Restoration of Coastal Wetlands on Mana Place	15.614	C-5-HM-1	1,000,000	1,098
Kawainui Marsh Wetland Restoration	15.614	C-7-HM-1	646,250	16,756
Pouhala Marsh Restoration & Community Development	15.614	C-4-HM-1	400,000	9,272
Kure Atoll Restoration Project	15.614	C-8-HM-1	400,000	8,778
Nu'u Coastal Wetlands Refuge	15.614	C-6-L-1	1,000,000	-
			3,446,250	35,904
Statewide Endangered Plant Program	15.615	E-2-MP-3	492,962	-
Candidate Conservation Grants - Development of Candidate Conservation Agreements	15.615	E-4-CC-1	981,899	19,895
Recovery Land Acquistion Program Grants	15.615	E-6-RL-1	150,000	-
Habitat Conservation Plan Grants - Development of HCPs	15.615	E-5-HP-1	517,134	100
Safe Harbor Grants - Development of Safe Harbor Agreements	15.615	E-3-SH-1	1,147,186	98,879
Endangered Maui Forest Bird	15.615	122002J002	642,948	55,579
Statewide Endangered Plant Program	15.615	E-2-MP-4	649,950	36
HCP Planning Assistance - Dev of an HCP for Game Mammal Mgmt in North Kona, HI Yr2	15.615	E-5-HP-2	346,583	134,129
Coordination & Planning of Programmatic HCP for E&T Seabirds on Kauai, Hawaii	15.615	E-8-HP-1	148,989	29,445

The above schedule is prepared on the cash basis. Under this basis, expenditures are recognized when paid.

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

Federal Grantor/ Pass-through Grantor/Program Title	Federal CFDA Number	Grant Number	Grant Award	Federal Expenditures
U.S. Department of the Interior (Continued)				
Statewide Endangered Wildlife Program	15.615	E-2-8	$ 505,533	$ -
Statewide Endangered Plant Program	15.615	E-2-MP-7	579,863	24,922
Recovery Land Acquisition: Carlsmith Trust Property	15.615	E-10-RL-1	875,000	869,999
Recovery Land Acquisition: Moanalua Valley Watershed Protection & Habitat Restoration	15.615	E-11-RL-1	1,634,364	-
Recovery Land Acquisition: Manuka Natural Area Reserve Inholding Acquisition	15.615	E-12-RL-1	78,750	-
Statewide Endangered Plant Program	15.615	E-2-MP-8	713,537	240,571
Statewide Endangered Wildlife Program	15.615	E-2-9	639,207	250,632
Endangered Maui Forest Bird	15.615	122007J011	65,000	13,682
Statewide Endangered Plant Program	15.615	E-2-MP-9	679,932	406,164
Statewide Endangered Wildlife Program	15.615	E-2-10	605,707	333,017
Nu'u Makai Wetlands - Preservation & Habitat	15.615	E-13-RL-1	1,794,500	-
Regional Multi-Species Habitat Conservation	15.615	E-14-HP-1	367,718	42,183
Kilauea Coastal Preserve & Habitat Restoration	15.615	E-15-RL-1	2,759,181	-
			16,375,943	2,519,233
Statewide Clean Vessel Program	15.616	F-V-1-1	623,000	15,956
Kaena Point Seabird Habitat Restoration	15.617	P-3-MP	50,000	24,399
Construction of Tie-Up Facilities for Transient Vessels at Ala Wai Small Boat Harbor, Oahu, Hawaii	15.622	Y-4-D-1	100,000	-
Construction of Tie-Up Facilities for Transient Vessels at Ala Wai Small Boat Harbor, Oahu, Hawaii	15.622	Y-5-D-1	100,000	-
			200,000	-
Ulupalakua Ranch - Kanaio Fence & Habitat Restoration	15.631	122001G012	50,000	-
Preventing the Extinction of Hawaii's Rarest Plants	15.631	122005G007	60,000	58,084
Helemano Watershed Management Project	15.631	122005G014	38,785	50
Hilo Forest Reserve Feral Cattle Hunt	15.631	122005G012	29,850	5,336
Review & Assessment of Methodologies to Control Non-Native Game Mammals	15.631	122005G013	15,000	1,101
Kohala Mountain Watershed Management	15.631	122005G011	15,000	3,005
			208,635	67,576
Landowner Incentive Program, Tier 1	15.633	I-1-1	180,000	9,671
Landowner Incentive Program, Tier 2	15.633	I-2-1	1,551,750	36,062
Landowner Incentive Program, Tier 1	15.633	I-3-1	180,000	27,036
Landowner Incentive Program, Tier 2	15.633	I-4-D-1	1,120,000	82,638
Landowner Incentive Program, Tier 2	15.633	I-5-HM-1	314,446	32,607
Landowner Incentive Program, Tier 1	15.633	I-6-1	180,000	-
			3,526,196	188,014
Statewide Wildlife Grant Program	15.634	T-2-1-1	389,940	20,155
Native Dryland & Mesic Forest Protection & Restoration	15.634	U-2-M-1	501,270	21,422

The above schedule is prepared on the cash basis. Under this basis, expenditures are recognized when paid.

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

Federal Grantor/ Pass-through Grantor/Program Title	Federal CFDA Number	Grant Number	Grant Award	Federal Expenditures
U.S. Department of the Interior (Continued)				
State Wildlife Grant Program I - Planning & Coordination of Statewide Program of Terrestrial Wildlife Conservation	15.634	T-1-P-2	$ 175,420	$ -
State Wildlife Grant Program II - Implementation of Statewide Program of Terrestrial Wildlife Conservation	15.634	T-2-2	407,340	45,729
Statewide Wildlife Grant Program I	15.634	T-1-P-3	188,000	-
Statewide Wildlife Grant Program II	15.634	T-2-3	424,020	102,014
State Wildlife Grant Program I - Planning & Coordination of Statewide Program of Terrestial Wildlife Conservation	15.634	T-1-P-4	198,000	38,377
State Wildlife Grant Program II. Implementation of Statewide Program of Terrestrial Wildlife Conservation	15.634	T-2-4	422,887	56,221
SWGI - State Wildlife Grant	15.634	T-2-5	204,446	103,071
SWGC - State Wildlife Grant	15.634	T-1-P-5	245,054	32,891
Aquatic Wildlife Conservation	15.634	T-3-P-2	150,000	129,818
State Wildlife Grant Implementation	15.634	T-2-6	457,549	327,961
Aquatic Wildlife Conservation	15.634	T-3-P-3	100,000	-
			3,863,926	877,659
Hawaii Aquatic Invasive Species	15.649	122007G017	56,500	4,606
Restore Lake House Reservoir - Pu'u Wa'awa'a	15.FFB	122002G010	233,318	-
Ahupua'a Pu'u Wa'awa'a Coordination	15.FFB	122003G014	60,000	-
Axis Deer Control on the Island of Maui	15.FFB	122003G029	60,000	8,239
Kahakuloa Natural Area Reserve / Game Management Area Fencing Project	15.FFB	122003G035	180,000	133,046
Kau Forest Reserve	15.FFB	122003G033	22,000	-
Alala Conservation Cooperative Initiative	15.FFB	122003G037	35,000	254
Mauna Kea Forest Reserve Fence Repair: Northwest Section	15.FFB	122003G038	92,000	34,836
Kauai Bog Endangered Species Management	15.FFB	122004G032	64,884	5,537
			747,202	181,912
National Park Service -				
FY07 Historic Preservation Annual Grant	15.904	15-07-21615	495,273	79,769
FY08 Historic Preservation Annual Grant	15.904	15-08-21716	512,991	261,574
			1,008,264	341,343
Aquatic Center, Central Oahu Regional Park	15.916	15-00146	725,000	725,000
Park Improvements, Isaac Hale Beach Park, County of Hawaii	15.916	15-00148	520,824	520,824
Playground Equipment, Hanapepe Heights Park & Hanapepe Cliffside Park, County of Kauai	15.916	15-00151	42,000	-
Diamond Head State Monument, Oahu	15.916	15-00149	200,000	-
Kekaha Gardens Park - Increment II	15.916	15-00154	200,000	-
Statewide Comprehensive Outdoor Recreational Program	15.916	15-00156	70,000	-
			1,757,824	1,245,824

The above schedule is prepared on the cash basis. Under this basis, expenditures are recognized when paid.

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

Federal Grantor/ Pass-through Grantor/Program Title	Federal CFDA Number	Grant Number	Grant Award	Federal Expenditures
U.S. Department of the Interior (Continued)				
Preserve America	15.929	15-07-PA-3015	$ 51,727	$ -
Total U.S. Department of the Interior			43,058,446	10,767,819
U.S. Department of Justice				
Drug Enforcement Administration -				
Direct Programs:				
Marijuana Eradication	16.579	LOA 2007-62	600,000	307,678
Marijuana Eradication	16.579	LOA 2008-61	400,000	186,612
			1,000,000	494,290
Subtotal Direct Programs			1,000,000	494,290
Office of Justice Programs -				
Pass-Through Programs From:				
The Department of the Attorney General, Crime Prevention and Justice Assistance Division, State of Hawaii -				
Maritime Intelligence & Enforcement Program	16.738	State AG 06-DJ-04	90,000	37,854
Subtotal Pass-Through Program			90,000	37,854
Total U.S. Department of Justice			1,090,000	532,144
U.S. Department of Transportation				
Federal Highway Administration -				
Direct Programs:				
Na Ala Hele Trail & Access System	20.219	NRT-NRT 1(008)	530,738	100
Na Ala Hele Trail & Access System	20.219	NRT-NRT 1(009)	625,284	100
Na Ala Hele Trail & Access System	20.219	NRT-NRT 1(010)	653,669	35,616
Na Ala Hele Trail & Access System	20.219	NRT-NRT 1(011)	758,079	702,707
Na Ala Hele Trail & Access System	20.219	NRT-NRT 1(012)	886,600	-
			3,454,370	738,523
Subtotal Direct Programs			3,454,370	738,523
Federal Highway Administration -				
Pass-Through Programs From:				
The Department of Transportation, State of Hawaii -				
Ka Iwi Scenic Shoreline	20.205	SOH-DOT STP-072-1(46)	5,159,006	575,329
Federal Transit Administration -				
Pass-Through Programs From:				
The Department of Transportation, State of Hawaii -				
Maui Ferry System & Harbor Improvements	20.500	SOH-DOT HI-03-0027-00	408,000	43,397
Ferry Boat Acquisition & Pier Improvements	20.500	SOH-DOT HI-03-0034-00	7,460,000	166,730

The above schedule is prepared on the cash basis. Under this basis, expenditures are recognized when paid.

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

Federal Grantor/ Pass-through Grantor/Program Title	Federal CFDA Number	Grant Number	Grant Award	Federal Expenditures
U.S. Department of Transportation (Continued)				
Ferry Commuter Pier Improvements	20.500	SOH-DOT HI-03-0038-00	$ 14,684,170	$ 1,856,247
Ferry Commuter Pier Improvements	20.500	SOH-DOT HI-03-0044-00	4,800,000	3,153,346
			27,352,170	5,219,720
Subtotal Pass-Through Programs			32,511,176	5,795,049
Total U.S. Department of Transportation			35,965,546	6,533,572
Environmental Protection Agency				
Wetlands Protection Development - Direct Program:				
Wetlands Protection Development - Plant Field Guide	66.461	CD-96911601	93,750	10,031
Subtotal Direct Program			93,750	10,031
Nonpoint Source Management Program - Pass-Through Programs From:				
The Department of Health, State of Hawaii -				
Polluted Runoff Control Program	66.460	SOH-DOH ASO No. 06-054	1,500,000	432,043
Polluted Runoff Control Program	66.460	SOH-DOH ASO No. 06-182	150,000	20,016
			1,650,000	452,059
Subtotal Pass-Through Programs			1,650,000	452,059
Total Environmental Protection Agency			1,743,750	462,090
Corporation for National & Community Service				
Americorps Awards Formula - Pass-Through Programs From:				
The Research Corporation of the University of Hawaii, State of Hawaii -				
Hawaii Youth Conservation Corps	94.006	06AFHHI0010005	165,758	61,233
Hawaii Youth Conservation Corps	94.006	07ACHHI001	629,787	346,008
			795,545	407,241
Subtotal Pass-Through Programs			795,545	407,241
Total Corporation for National & Community Service			795,545	407,241
U.S. Department of Homeland Security				
Direct Programs:				
United States Coast Guard -				
Recreational Boating Safety Program, FY05	97.012	15.01.15	479,102	-
Recreational Boating Safety Program, FY06	97.012	16.01.15	1,106,745	87,035

The above schedule is prepared on the cash basis. Under this basis, expenditures are recognized when paid.

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

Federal Grantor/ Pass-through Grantor/Program Title	Federal CFDA Number	Grant Number	Grant Award	Federal Expenditures
U.S. Department of Homeland Security (Continued)				
Recreational Boating Safety Program, FY07	97.012	17.01.15	$ 732,298	$ 590,603
Recreational Boating Safety Program, FY08	97.012	18.01.15	870,085	123,360
			3,188,230	800,998
Federal Emergency Management Agency -				
Community Assistance Program	97.023	EMF-2007-GR-0703	104,612	39,819
Community Assistance Program	97.023	EMF-2008-GR-0803	85,100	54,425
			189,712	94,244
Dam Safety Program, FY07	97.041	EMW-2007-GR-0743	25,379	11,503
Dam Safety Program, FY06	97.041	EMW-2006-ND-0042	25,249	25,010
			50,628	36,513
Map Modernization Support Program	97.070	EMF-2005-GR-0506	120,000	59,609
Map Modernization Management Support	97.070	EMF-2006-GR-0610	25,000	2,325
Map Modernization Support Program	97.070	EMF-2007-GR-0610	140,000	51,390
Map Modernization Support Program	97.070	EMF-2008-GR-0807	140,000	-
			425,000	113,324
Subtotal Direct Programs			3,853,570	1,045,079
Federal Emergency Management Agency - Pass-Through Programs From: The Department of Defense, Office of the Director of Civil Defense, State of Hawaii -				
October 2004 Flood	97.036	SOH-DOD FEMA-1575-DR-HI	90,058	-
March 2006 Flood	97.036	SOH-DOD FEMA-1640-DR-HI	1,619,761	736,923
October 2006 Earthquake	97.036	SOH-DOD FEMA-1664-DR-HI	1,392,206	124,691
December 2007 Storm Disaster	97.036	SOH-DOD FEMA-1743-DR-HI	386,616	183,321
			3,488,641	1,044,935
Office of Domestic Preparedness - Pass-Through Programs From: The Department of Defense, Office of the Director of Civil Defense, State of Hawaii -				
FY2003 State Homeland Security Grant Program Part II	97.067	SOH-DOD SHSGP II	300,000	(2,593)
FY 2005 State Homeland Security Grant	97.067	SOH-DOD 2005-GE-T5-0034	303,428	(19,923)
FY 2004 State Homeland Security Grant	97.067	SOH-DOD 2004-GE-T4-0042	332,986	137,336
FY 2003 State Homeland Security Grant Program Part I	97.067	SOH-DOD 2003 SHSGP I	217,000	3,356
			1,153,414	118,176
Subtotal Pass-Through Programs			4,642,055	1,163,111
Total U.S. Department of Homeland Security			8,495,625	2,208,190
Total Federal Grants			$156,877,553	$ 32,294,735

The above schedule is prepared on the cash basis. Under this basis, expenditures are recognized when paid.

PART IV

COMPLIANCE AND INTERNAL CONTROL SECTION

Ohata Chun Yuen LLP
CERTIFIED PUBLIC ACCOUNTANTS

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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

Office of the Auditor
State of Hawaii

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Department of Land and Natural Resources, State of Hawaii (Department), as of and for the year ended June 30, 2008, which collectively comprise the Department's basic financial statements and have issued our report thereon dated January 15, 2009. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Department's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Department's financial statements that is more than inconsequential will not be prevented or detected by the Department's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Department's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Department in a separate letter dated January 15, 2009.

This report is intended solely for the information and use of the management of the Department, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Honolulu, Hawaii
January 15, 2009

Ohata Chun Yuen LLP
CERTIFIED PUBLIC ACCOUNTANTS

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Office of the Auditor
State of Hawaii

Compliance

We have audited the compliance of the Department of Land and Natural Resources, State of Hawaii (Department), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2008. The Department's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Department's management. Our responsibility is to express an opinion on the Department's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Department's compliance with those requirements.

In our opinion, the Department complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the Department, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Department's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Department's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Department's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Department's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the management of the Department, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ohata Chun Goo LLP

Honolulu, Hawaii
January 15, 2009

PART V

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Schedule Of Findings And Questioned Costs
For The Year Ended June 30, 2008

Section I - Summary Of Auditors' Results

Financial Statements -

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes ____x____ no

- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ yes ____x____ none reported

Noncompliance material to financial statements noted? _____ yes ____x____ no

Federal Awards -

Internal control over major programs:

- Material weakness(es) identified? _____ yes ____x____ no

- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ yes ____x____ none reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? _____ yes ____x____ no

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
10.664	Cooperative Forestry Assistance
11.419	Coastal Zone Management Administration Awards
15.605	Sport Fish Restoration Program
15.611	Wildlife Restoration
97.036	Disaster Grants-Public Assistance (Presidentially Declared Disasters)

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Schedule Of Findings And Questioned Costs
For The Year Ended June 30, 2008

Section I - Summary Of Auditors' Results (continued)

Dollar threshold used to distinguish between type A and type B programs:	$ 968,842	
Auditee qualified as low-risk auditee?	x yes	_____ no

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Schedule Of Findings And Questioned Costs
For The Year Ended June 30, 2008

Section II - Financial Statement Findings

None

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STATE OF HAWAII
Schedule Of Findings And Questioned Costs
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Section III - Federal Award Findings And Questioned Costs

None

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Schedule Of Prior Findings And Questioned Costs
For The Year Ended June 30, 2008

Finding	Status
None	