

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

JUNE 30, 2009

Submitted By
The Auditor
State of Hawaii

PART I
INTRODUCTORY SECTION

February 1, 2010

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, 2009. 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, 2009.

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,

Ohata Chun Jun LLP

TABLE OF CONTENTS

	<u>PAGE</u>
PART I - INTRODUCTORY SECTION	
Letter of Transmittal.....	1
Table of Contents	3
 PART II - FINANCIAL SECTION	
Report of Independent Accountants	5
Management's Discussion and Analysis.....	7
Basic Financial Statements:	
Entity -Wide Financial Statements:	
Statement of Net Assets.....	18
Statement of Activities.....	19
 Fund Financial Statements:	
Balance Sheet Governmental Funds.....	20
Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds.....	21
Statement of Fiduciary Net Assets.....	22
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets.....	23
Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities.....	25
Statement of Revenues and Expenditures - Budget and Actual - General Fund.....	27
Statement of Revenues and Expenditures - Budget and Actual - Other Major Funds.....	28
Notes to the Financial Statements.....	30
 PART III - SUPPLEMENTAL SECTION	
Combining Balance Sheet - Nonmajor Governmental Funds.....	53
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds.....	56
Schedule of Expenditures of Federal Awards.....	59

PART IV - COMPLIANCE AND INTERNAL CONTROL SECTION

Independent Auditors' 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 69

Independent Auditors' Report on Compliance with
Requirements Applicable to Each Major Program and on Internal
Control Over Compliance in Accordance with OMB Circular A-133..... 71

PART V - SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Schedule of Findings and Questioned Costs for the Fiscal Year Ended
June 30, 2009..... 73
Summary Schedule of Prior Audit Findings 79

PART II
FINANCIAL SECTION

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, 2009, 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, 2009, 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 February 1, 2010, 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.

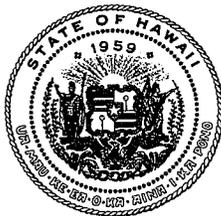
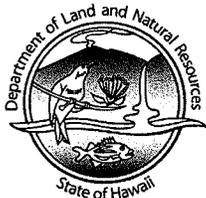
The management's discussion and analysis on pages 7 through 17 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted 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.

A handwritten signature in cursive script that reads "Ohata Chun-gum LLP".

Honolulu, Hawaii
February 1, 2010

LINDA LINGLE
GOVERNOR OF HAWAII



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

POST OFFICE BOX 621
HONOLULU, HAWAII 96809

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

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, 2009. 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 2009

- The assets of the DLNR exceeded its liabilities at June 30, 2009, by \$474.9 million. Of this amount, \$147.4 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 \$155.6 million.
- During the year, the DLNR's total revenue was \$111.7 million and expenses totaled \$130.9 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

- The *Statement of Net 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2009

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2009

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, 2009, the DLNR's total net assets were approximately \$474.9 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)

	<u>2009</u>	<u>2008</u>	<u>Increase (Decrease)</u>
Cash and short term investments	\$191.0	\$ 213.5	\$ (22.5)
Receivables	3.5	5.7	(2.2)
Capital assets	<u>331.0</u>	<u>313.2</u>	<u>17.8</u>
Total assets	<u>\$ 525.5</u>	<u>\$ 532.4</u>	<u>\$ (6.9)</u>
Current liabilities	42.8	44.1	(1.3)
Long-term liabilities	<u>7.8</u>	<u>8.7</u>	<u>(0.9)</u>
Total liabilities	<u>50.6</u>	<u>52.8</u>	<u>(2.2)</u>
Invested in capital assets, net of related debt	327.5	308.8	18.7
Unrestricted	<u>147.4</u>	<u>170.8</u>	<u>(23.4)</u>
Total net assets	<u>474.9</u>	<u>479.6</u>	<u>(4.7)</u>
Total liabilities and net assets	<u>\$ 525.5</u>	<u>\$ 532.4</u>	<u>\$ (6.9)</u>

DLNR's net assets decreased by \$6.9 million during the fiscal year ended June 30, 2009. This was mainly due to a \$22.2 million decrease in cash and short-term cash investments held in State Treasury and a \$17.8 million increase of Capital assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2009

The majority of the decrease in cash and short-term cash investments held in State Treasury occurred in the General Fund. Outstanding encumbrances under the General Fund are considered cash held in State Treasury since cash is required to liquidate these obligations in the following fiscal year. Due to economic downturn, General Fund spending was reduced by about \$10 million and outstanding encumbrances at year end reflected a similar decrease. Outstanding encumbrances of the March 2006 Flood and the October 2006 Earthquake emergency repair projects decreased by over \$3 million dollars as repair work are completed and vendors paid. Special and Trust Funds sustained a \$6.1 million loss in cash and short-term cash investments due to valuation adjustment for auction rate securities included in the State's investment pool.

The increase in capital assets included \$10.5 million of construction and improvements of various DLNR facilities, \$3.1 million of land improvements at Kikala-Keokea Subdivision on the Island of Hawaii, and \$5.4 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, 2009:

	Changes in Net Assets (in millions)		Increase (Decrease)
	2009	2008	
Program revenue			
Interest, rents, taxes and fees	\$ 30.8	\$ 45.9	\$ (15.1)
Operating grants and contributions	23.1	34.5	(11.4)
State allotted appropriations, net of lapses	47.5	108.2	(60.7)
Total revenue	<u>101.4</u>	<u>188.6</u>	<u>(87.2)</u>
Total expenses	<u>112.2</u>	<u>107.9</u>	<u>4.3</u>
Excess before transfers	(10.8)	80.7	(91.5)
Transfers	<u>6.1</u>	<u>(0.4)</u>	<u>6.5</u>
Change in net assets	(4.7)	80.3	(85.0)
Net assets – beginning	<u>479.6</u>	<u>399.3</u>	<u>80.3</u>
Net assets - end of year	<u>\$ 474.9</u>	<u>\$ 479.6</u>	<u>\$ (4.7)</u>

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. As a result of restrictions in spending, general fund appropriations decreased by \$12.3 million and capital improvement project appropriations decreased by \$48.4 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2009

The ferry system improvement projects funded by the federal Department of Transportation decreased by over \$6 million due to the completion of the Manele project in July 2008. Another \$4 million decrease in grant funding was due to the completion of federally funded projects such as the Pupukea-Paumalu land purchase, Isaac Hale Beach Park and various boat ramp improvement projects in FY08.

Both the Land Conservation Fund and the Natural Area Reserves Fund receive a percentage of conveyance tax revenues. As housing sales continue to slow down, these two funds received \$5.1 million less of conveyance tax revenues in FY09. The decrease of over \$2 million in interest earnings is a result of declining interest rate, shrinking cash balances due to loss of revenue, and non-receipt of interest earned from Department of Budget and Finance for the last five months of the fiscal year. Special and Trust funds also recorded a loss of \$6.1 million to account for the value adjustment for auction rate securities.

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.

Comparison of Balance Sheets
(in millions)

	Assets			Liabilities			Fund Balances		
	2009	2008	Change	2009	2008	Change	2009	2008	Change
General Fund	\$ 9.1	\$ 19.4	\$ (10.3)	\$ 2.7	\$ 6.0	\$ (3.3)	\$ 6.4	\$ 13.4	\$ (7.0)
Federal Grant Fund	9.8	8.8	1.0	14.7	14.0	0.7	(4.9)	(5.2)	0.3
Water and Land Development Fund	1.3	0.9	0.4	6.2	6.2	0.0	(4.9)	(5.2)	0.3
Ocean Based Recreation Fund	2.4	2.5	(0.1)	4.9	4.6	0.3	(2.5)	(2.2)	(0.3)
Capital Projects Fund	107.5	112.8	(5.3)	3.1	3.7	(0.6)	104.4	109.1	(4.7)
Other Funds	65.3	75.2	(9.9)	8.3	6.1	2.2	57.0	69.1	(12.1)
Total	\$ 195.4	\$ 219.6	\$ (24.2)	\$ 39.9	\$ 40.6	\$ (0.7)	\$ 155.5	\$ 179.0	\$ (23.5)

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2009

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

	Revenues		Expenditures		Transfers		Lapsed Appropriations		Net Changes in Fund Balances						
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008					
General Fund	\$37.3	\$45.2	-\$7.9	\$37.6	\$41.5	-\$3.9	-\$0.5	-\$1.8	\$1.3	-\$6.2	-\$1.8	-\$4.4	-\$7.0	\$0.1	-\$7.1
Federal Grant Fund	17.5	17.5	0.0	17.0	17.3	-0.3	-0.2	-0.9	0.7	0.0	0.0	0.0	\$0.3	-0.7	1.0
Water and Land Development	-0.1	0.0	-0.1	0.0	0.0	0.0	0.4	0.4	0.0	0.0	0.0	0.0	\$0.3	0.4	-0.1
Ocean-Based Recreation Fund	11.7	12.3	-0.6	10.6	11.4	-0.8	-1.5	-1.2	-0.3	0.0	0.0	0.0	-\$0.4	-0.3	-0.1
Capital Projects Fund	21.0	78.0	-57.0	22.6	43.0	-20.4	1.1	1.3	-0.2	-4.1	-3.9	-0.2	-\$4.6	32.4	-37.0
Other Funds	24.1	35.4	-11.3	43.0	35.8	7.2	6.8	1.8	5.0	0.0	0.0	0.0	-\$12.1	1.4	-13.5
Total	\$111.5	\$188.4	-\$76.9	\$130.8	\$149.0	-\$18.2	\$6.1	-\$0.4	\$6.5	-\$10.3	-\$5.7	-\$4.6	-\$23.5	\$33.3	-\$56.8

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2009

The General Fund is the primary operating fund of the DLNR. At the end of the current fiscal year, there was a \$1.2 million deficit in the unreserved fund balance of the General Fund. The deficit resulted from recognition of expenditures under GAAP in 2009 and will be funded with fiscal year 2010 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 \$22.6 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 \$11.7 million and expenditures approximately \$10.6 million.

The Capital Projects Fund received approximately \$21.0 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. Although cash and short term investments of the fiduciary accounts increased \$8.0 million, \$7.3 million was reclassified as an expendable trust fund in fiscal year 2009 because the Water Development Temporary Deposits Fund no longer serves the original purpose of being a temporary holding account for security deposits. The Water Development Temporary Deposits Fund was renamed Donations, Gifts, and Grants Fund to reflect its new function of accepting deposits from private and governmental sources to be used on specific projects.

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2009

Summary of Statement of Fiduciary Assets
(In millions)

	2009	2008	Increase (Decrease)
Cash and short term investments	\$ 12.9	\$ 12.2	\$ 0.7
Receivables - General leases and licenses	0.6	0.8	(0.2)
Total assets	13.5	13.0	0.5
Due to State Treasury	0.4	0.5	(0.1)
Due to other State agencies	0.7	0.9	(0.2)
Total liabilities	1.1	1.4	(0.3)
Held in trust for Individuals and organizations	12.4	11.6	0.8
Total net assets	\$ 12.4	\$ 11.6	\$ 0.8

BUDGETARY HIGHLIGHTS

General Fund - Actual expenditures for general funded programs were \$6.3 million less than the budgeted expenditures. The \$1.1 million General Fund appropriated for the Dam and Reservoir Safety Special Fund and Aha Kiole Advisory Committee was lapsed due to the funds not being released as budgeted. About \$2.7 million in General Funds were restricted due to budget reduction and lapsed at year end. Prudent spending saved another \$1.3 million that was lapsed at year end. Of the \$1.9 million budgeted for the March 2006 Flood and October 2006 Earthquake repair projects, only about \$0.9 million was expended because most of the March 2006 Flood repair projects were completed by FY08.

Federal Funds - In anticipation of new and additional federal grant funds in fiscal year 2009, the DLNR requested and received approval from the Governor to increase the ceilings on its federal grant operating appropriations by approximately \$6 million. A new \$5 million grant was approved by the Natural Resources Conservation Service for the Emergency Watershed Protection Program. Another \$1 million increase was approved for wildlife management, Chronic Wasting Disease surveillance, and recreational trail programs. \$14.4 million of federal funds were carried over from FY08 to FY09 for our forestry and wildlife programs. 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2009

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 \$10,066 and loss from auction rate securities valuation adjustment amounted to \$112,602. Revenue of \$30,217 was received for accumulated leave for new staff members. This fund's revenues and expenditures are directly related to investment and 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 \$4.9 million less than budgeted because the division's operating budget had been approved by the Legislature based on an anticipated fee increase which was not implemented until March 2010. Furthermore, economic downturn had an adverse effect on the division's ability to generate revenue. There was a sharp decline in revenues generated from both domestic and international cruise ship activities. Rents from commercial operators are based on a percentage of their gross receipts and there was significant drop in this area also. Additionally, three docks were out of service for a major part of FY09, further contributing to the decrease in revenue. Expenditures of this special fund are supported by the revenue it generates. A decrease in revenue means curtailment of its expenditures, resulting in expenditure levels being less than budgeted.

CAPITAL ASSETS AND DEBT ADMINISTRATION

At the end of fiscal year 2009, the DLNR had invested approximately \$331.0 million (net of accumulated depreciation) in a broad range of capital assets. The inventory of construction-in-progress increased by \$5.4 million. The \$17.8 million increase in building assets include construction of the Conservation Education Facility in Waimea, the Kam Mon Store and comfort stations at various state park locations, improvements to the Kalanimoku Building and wastewater systems in state parks, as well as a \$4.7 million reclassification of land improvements to buildings.

See Note 5 to the financial statements for a description of capital assets activities for the Fiscal Year Ended June 30, 2009.

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2009

Capital Assets (In millions)			
	2009	2008	Increase (Decrease)
Capital assets not being depreciated			
Land	\$ 157.2	\$ 157.2	\$ 0.0
Land improvements	3.8	0.7	3.1
Construction in progress	116.4	111.0	5.4
Total capital assets not being depreciated	277.4	268.9	8.5
Capital assets being depreciated			
Buildings	49.8	32.0	17.8
Land and improvements	78.9	83.6	(4.7)
Furniture and equipment	12.2	10.8	1.4
Vehicles	15.9	15.1	0.8
Total capital assets being depreciated	156.8	141.5	15.3
Less total accumulated depreciation	(103.2)	(97.2)	(6.0)
Total capital assets being depreciated, net	53.6	44.3	9.3
Total capital assets, net	\$ 331.0	\$ 313.2	\$ 17.8

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

The accrued vacation balance as of June 30, 2009 was \$8,193,747, an increase of \$68,362 from fiscal year 2008. Beginning with FY06, leave amounts were increased to include certain fringe benefits. For FY09, the value attributed to fringe benefits was \$582,277.

The outstanding balance of the State of Hawaii general obligation bonds allocated to the DLNR is approximately \$3.4 million as of June 30, 2009, a decrease of \$1,063,777 from the amount outstanding as of June 30, 2008. In addition to the payments for bond principal, interest of \$179,643 was paid by during the fiscal year ended June 30, 2009. 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, 2009.

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2009

Long Term Obligations (In millions)			Increase (Decrease)
	2009	2008	
Accrued vacation	\$ 8.2	\$ 8.1	\$ 0.1
General obligation bonds	3.4	4.5	(1.1)
 Total long term debt	 \$ 11.6	 \$ 12.6	 \$ (1.0)

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, 2009

ASSETS

Cash and short-term cash investments held in State Treasury	\$191,043,348
Receivables:	
Federal grants	3,532,050
General leases and licenses, net of allowance for losses of \$1,083,426	8,141
Capital assets:	
Land, improvements, construction-in-progress and other capital assets, net of depreciation	<u>330,956,532</u>
 Total assets	 <u>\$525,540,071</u>

LIABILITIES

Vouchers and contracts payable	\$ 8,240,648
Accrued wages and employee benefits payable	3,049,710
Due to State Treasury	12,776,160
Due to other State Agencies	8,964,318
Deferred revenue	5,033,155
General obligation bonds:	
Due within one year	730,000
Due in more than one year	2,690,593
Note payable to State Treasury	895,495
Accrued vacation:	
Due within one year	3,042,361
Due in more than one year	5,151,386
Security deposits	<u>39,600</u>
 Total liabilities	 <u>50,613,426</u>

Commitments and contingencies

NET ASSETS

Invested in capital assets, net of related debt	327,535,939
Unrestricted	<u>147,390,706</u>
 Total net assets	 <u>474,926,645</u>
 Total liabilities and net assets	 <u>\$525,540,071</u>

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, 2009

Functions/Programs	Program Revenue			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Interest, Rents and Fees	Operating Grants and Contributions	
Departmental activities:				
Economic development	\$ 8,574,855	\$ 14,416	\$ 2,451,640	\$ (6,108,799)
Environmental protection	48,827,486	3,573,796	11,557,128	(33,696,562)
Culture and recreation	31,417,515	14,723,433	5,822,903	(10,871,179)
Public safety	3,174,792	(70,317)	2,516,935	(728,174)
Individual rights	3,404,337	3,313,465	4,198	(86,674)
Government-wide support	12,974,866	9,247,395	754,062	(2,973,409)
Capital outlays	<u>3,844,801</u>	-	-	<u>(3,844,801)</u>
Total departmental activities	<u>\$112,218,652</u>	<u>\$30,802,188</u>	<u>\$23,106,866</u>	<u>(58,309,598)</u>
General revenues:				
Appropriations, net of lapsed appropriations				<u>47,502,007</u>
Total general revenues before transfers				47,502,007
Transfers, net				<u>6,121,056</u>
Total general revenues and transfers				<u>53,623,063</u>
Change in net assets				<u>(4,686,535)</u>
Net assets at July 1, 2008				<u>479,613,180</u>
Net assets at June 30, 2009				<u>\$474,926,645</u>

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, 2009

	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	\$ 9,080,619	\$ 6,306,838	\$ 1,273,451	\$ 1,873,652	\$ 107,534,087	\$ 64,974,701	\$ 191,043,348
Receivables:							
Federal grants	-	3,511,710	-	-	20,340	-	3,532,050
General leases and licenses, net of allowance of \$1,083,426	-	-	-	-	-	8,141	8,141
Due from Federal Grant Fund	-	-	-	561,394	-	292,416	853,810
Total assets	<u>\$ 9,080,619</u>	<u>\$ 9,818,548</u>	<u>\$ 1,273,451</u>	<u>\$ 2,435,046</u>	<u>\$ 107,554,427</u>	<u>\$ 65,275,258</u>	<u>\$ 195,437,349</u>
LIABILITIES							
Vouchers and contracts payable	\$ 1,286,285	\$ 1,369,609	\$ 8,665	\$ 421,837	\$ 1,998,481	\$ 3,155,771	\$ 8,240,648
Accrued wages and employee benefits payable	1,373,699	179,482	-	336,154	145,794	1,014,581	3,049,710
Due to State Treasury	-	11,589,022	-	1,187,138	-	-	12,776,160
Due to other State agencies	-	-	6,180,795	2,684,317	-	99,206	8,964,318
Due to Special Revenue Funds	-	853,810	-	-	-	-	853,810
Deferred revenue	-	743,264	-	307,197	-	3,982,694	5,033,155
Note payable to State Treasury	-	-	-	-	895,495	-	895,495
Security deposits	-	-	-	-	-	39,600	39,600
Total liabilities	<u>2,659,984</u>	<u>14,735,187</u>	<u>6,189,460</u>	<u>4,936,643</u>	<u>3,039,770</u>	<u>8,291,852</u>	<u>39,852,896</u>
Commitments and contingencies							
FUND BALANCES							
Reserved for:							
Encumbrances	7,602,848	11,131,284	20	1,152,850	48,365,881	17,506,377	85,759,260
Receivables	-	3,511,710	-	561,394	20,340	300,557	4,394,001
Continuing appropriations	-	-	-	-	56,128,436	-	56,128,436
Unexpended Federal awards	-	-	-	-	-	13,199,468	13,199,468
Total reserved fund balances	<u>7,602,848</u>	<u>14,642,994</u>	<u>20</u>	<u>1,714,244</u>	<u>104,514,657</u>	<u>31,006,402</u>	<u>159,481,165</u>
Unreserved:							
Unreserved reported in major funds	(1,182,213)	(19,559,633)	(4,916,029)	(4,215,841)	-	-	(29,873,716)
Unreserved reported in nonmajor - Special Revenue Funds	-	-	-	-	-	25,977,004	25,977,004
Total unreserved fund balances	<u>(1,182,213)</u>	<u>(19,559,633)</u>	<u>(4,916,029)</u>	<u>(4,215,841)</u>	<u>-</u>	<u>25,977,004</u>	<u>(3,896,712)</u>
Total fund balances	<u>6,420,635</u>	<u>(4,916,639)</u>	<u>(4,916,009)</u>	<u>(2,501,597)</u>	<u>104,514,657</u>	<u>56,983,406</u>	<u>155,584,453</u>
Total liabilities and fund balances	<u>\$ 9,080,619</u>	<u>\$ 9,818,548</u>	<u>\$ 1,273,451</u>	<u>\$ 2,435,046</u>	<u>\$ 107,554,427</u>	<u>\$ 65,275,258</u>	<u>\$ 195,437,349</u>

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, 2009

	General Fund	Federal Grant Fund	Water and Land Development	Ocean-Based Recreation Fund	Capital Projects Fund	Other Funds	Total
Revenues							
Appropriations	\$37,335,205	\$ -	\$ -	\$ -	\$ 20,413,000	\$ -	\$ 57,748,205
Intergovernmental revenues	-	18,014,224	-	-	619,362	326,935	18,960,521
General leases, licenses and permits	-	-	-	10,134,335	-	14,119,797	24,254,132
Taxes, fuel and others	-	-	-	1,604,217	-	9,577,303	11,181,520
Net investment (loss) gain	-	(546,498)	(102,536)	(128,281)	17,258	(3,873,407)	(4,633,464)
Other	-	32,548	30,217	124,023	-	3,959,557	4,146,345
Total revenues	<u>37,335,205</u>	<u>17,500,274</u>	<u>(72,319)</u>	<u>11,734,294</u>	<u>21,049,620</u>	<u>24,110,185</u>	<u>111,657,259</u>
Expenditures							
Current:							
Economic development	3,731,892	992,941	30,408	-	-	3,826,920	8,582,161
Environmental protection	20,903,328	10,570,090	-	-	-	17,595,372	49,068,790
Culture and recreation	10,453,308	4,840,985	-	9,330,871	-	4,439,750	29,064,914
Public safety	2,298,577	621,883	-	-	-	136,951	3,057,411
Individual rights	110,464	752	-	-	-	3,917,521	4,028,737
Government-wide support	137,805	2,206	-	-	-	13,121,186	13,261,197
Capital improvement projects	-	-	-	-	22,622,029	-	22,622,029
Debt service:							
Principal on long-term debt	-	-	-	1,063,777	-	-	1,063,777
Interest on long-term debt	-	-	-	179,643	-	-	179,643
Total expenditures	<u>37,635,374</u>	<u>17,028,857</u>	<u>30,408</u>	<u>10,574,291</u>	<u>22,622,029</u>	<u>43,037,700</u>	<u>130,928,659</u>
Excess of revenues over (under) expenditures	<u>(300,169)</u>	<u>471,417</u>	<u>(102,727)</u>	<u>1,160,003</u>	<u>(1,572,409)</u>	<u>(18,927,515)</u>	<u>(19,271,400)</u>
Other financing sources (uses)	-	5,782,327	1,346,828	10,700,381	1,072,838	59,755,820	78,658,194
Operating transfers in	(500,491)	(5,944,389)	(914,773)	(12,191,269)	-	(52,986,216)	(72,537,138)
Operating transfers out	-	-	-	-	-	-	-
Total other financing sources (uses)	<u>(500,491)</u>	<u>(162,062)</u>	<u>432,055</u>	<u>(1,490,888)</u>	<u>1,072,838</u>	<u>6,769,604</u>	<u>6,121,056</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	<u>(800,660)</u>	<u>309,355</u>	<u>329,328</u>	<u>(330,885)</u>	<u>(499,571)</u>	<u>(12,157,911)</u>	<u>(13,150,344)</u>
Lapsed appropriations	6,190,561	-	-	-	4,055,637	-	10,246,198
Net change in fund balances	<u>(6,991,221)</u>	<u>309,355</u>	<u>329,328</u>	<u>(330,885)</u>	<u>(4,555,208)</u>	<u>(12,157,911)</u>	<u>(23,396,542)</u>
Fund balances at July 1, 2008	<u>13,411,856</u>	<u>(5,225,994)</u>	<u>(5,245,337)</u>	<u>(2,170,712)</u>	<u>109,069,865</u>	<u>69,141,317</u>	<u>178,980,995</u>
Fund balances at June 30, 2009	<u>\$ 6,420,635</u>	<u>\$ (4,916,639)</u>	<u>\$ (4,916,009)</u>	<u>\$ (2,501,597)</u>	<u>\$ (4,514,657)</u>	<u>\$ (56,983,406)</u>	<u>\$ (55,584,453)</u>

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, 2009

	<u>Agency Funds</u>
ASSETS	
Cash and short-term cash investments held in State Treasury	\$12,937,317
Receivables:	
General leases and licenses, net of allowance for losses of \$732,363	<u>600,403</u>
Total assets	<u>13,537,720</u>
 LIABILITIES	
Due to State Treasury	420,789
Due to other State agencies	<u>746,919</u>
Total liabilities	<u>1,167,708</u>
 NET ASSETS	
Held in trust for:	
Individuals and organizations	<u>12,370,012</u>
Total net assets	<u>\$12,370,012</u>

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, 2009

	<u>Total Governmental Funds</u>	<u>Long-Term Assets, Liabilities</u>	<u>Reclassifications and Eliminations</u>	<u>Statement of Net Assets</u>
ASSETS				
Cash and short-term cash investments held in State Treasury	\$191,043,348	\$ -	\$ -	\$191,043,348
Receivables:				
Federal grants	3,532,050	-	-	3,532,050
General leases and licenses, net of allowance for losses	8,141	-	-	8,141
Due from Federal Grant Fund	853,810	-	(853,810)	-
Capital Assets:				
Land, improvements, construction-in-progress and other capital assets, net of depreciation	<u>-</u>	<u>330,956,532</u> (1)	<u>-</u>	<u>330,956,532</u>
Total assets	<u>\$195,437,349</u>	<u>\$330,956,532</u>	<u>\$ (853,810)</u>	<u>\$525,540,071</u>
LIABILITIES				
Vouchers and contracts payable	\$ 8,240,648	\$ -	\$ -	\$ 8,240,648
Accrued wages and employee benefits payable	3,049,710	-	-	3,049,710
Due to State Treasury	12,776,160	-	-	12,776,160
Due to other State agencies	8,964,318	-	-	8,964,318
Due to Special Revenue Funds	853,810	-	(853,810)	-
Deferred revenue	5,033,155	-	-	5,033,155
Bonds payable:				
Due within one year	-	730,000 (2)	-	730,000
Due in more than one year	-	2,690,593 (2)	-	2,690,593
Note payable to State Treasury	895,495	-	-	895,495
Accrued vacation:				
Due within one year	-	3,042,361 (3)	-	3,042,361
Due in more than one year	-	5,151,386 (3)	-	5,151,386
Security deposits	<u>39,600</u>	<u>-</u>	<u>-</u>	<u>39,600</u>
Total liabilities	<u>39,852,896</u>	<u>11,614,340</u>	<u>(853,810)</u>	<u>50,613,426</u>
FUND BALANCES/NET ASSETS				
Invested in capital assets, net of related debt	-	313,241,941 (1) 24,063,328 (1) (6,348,737) (1) (4,484,370) (2) 1,063,777 (2)	-	327,535,939
Reserved/Restricted for:				
Encumbrances	85,759,260	-	(85,759,260) (4)	-
Receivables	4,394,001	-	(4,394,001) (4)	-
Continuing appropriations	56,128,436	-	(56,128,436) (4)	-
Unexpended federal awards	13,199,468	-	(13,199,468) (4)	-
Unreserved/Unrestricted	<u>(3,896,712)</u>	<u>(8,193,747)</u>	<u>159,481,165</u> (4)	<u>147,390,706</u>
Total fund balances/net assets	<u>155,584,453</u>	<u>319,342,192</u>	<u>-</u>	<u>474,926,645</u>
Total liabilities and fund balances/net assets	<u>\$195,437,349</u>	<u>\$330,956,532</u>	<u>\$ (853,810)</u>	<u>\$525,540,071</u>

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, 2009

Total fund balances - governmental funds \$155,584,453

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	\$ 78,907,513
Other capital assets	77,935,012
Accumulated depreciation	(103,259,939)
Land	157,187,878
Other capital assets, not depreciated	3,816,436
Construction-in-progress	<u>116,369,632</u>

Total capital assets 330,956,532

- (2) Bonds payable are not reported in the governmental funds. (3,420,593)

- (3) Accrued vacation is not reported in the governmental funds. (8,193,747)

- (4) Reclassify reserved fund balances/net assets to unrestricted fund balances/net assets. -

Total net assets \$474,926,645

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, 2009

	<u>Total Governmental Funds</u>	<u>Long-Term Assets, Liabilities</u>	<u>Reclassifications and Eliminations</u>	<u>Statement of Activities</u>
Revenues				
Appropriations	\$ 57,748,205	\$ -	\$(10,246,198) (4)	\$ 47,502,007
Intergovernmental revenues	18,960,521	-	-	18,960,521
General leases, licenses and permits	24,254,132	-	-	24,254,132
Taxes, fuel and others	11,181,520	-	-	11,181,520
Net investment loss	(4,633,464)	-	-	(4,633,464)
Other	<u>4,146,345</u>	<u>-</u>	<u>-</u>	<u>4,146,345</u>
Total revenues	<u>111,657,259</u>	<u>-</u>	<u>(10,246,198)</u>	<u>101,411,061</u>
Expenditures				
Economic development	8,582,161	(382,661)(1) 347,192 (1) 28,163 (3)	-	8,574,855
Environmental protection	49,068,790	(2,736,494)(1) 1,950 (1) 2,507,454 (1) (14,214)(3)	-	48,827,486
Culture and recreation	29,064,914	(1,055,364)(1) 3,163,049 (1) 65,273 (3)	179,643 (5)	31,417,515
Public safety	3,057,411	(60,834)(1) 162,677 (1) 15,538 (3)	-	3,174,792
Individual rights	4,028,737	(674,567)(1) 98,168 (1) (48,001)(3)	-	3,404,337
Government-wide support	13,261,197	(376,179)(1) 68,246 (1) 21,602 (3)	-	12,974,866
Capital outlays	22,622,029	(18,906,317)(1) 129,089 (1)	-	3,844,801
Principal on long-term debt	1,063,777	(1,063,777)(2)	-	-
Interest on long-term debt	<u>179,643</u>	<u>-</u>	<u>(179,643)(5)</u>	<u>-</u>
Total expenditures	<u>130,928,659</u>	<u>(18,710,007)</u>	<u>-</u>	<u>112,218,652</u>
	<u>(19,271,400)</u>	<u>18,710,007</u>	<u>(10,246,198)</u>	<u>(10,807,591)</u>
Other financing sources (uses) and lapsed appropriations:				
Net operating transfers	6,121,056	-	-	6,121,056
Lapsed appropriations	<u>(10,246,198)</u>	<u>-</u>	<u>10,246,198 (4)</u>	<u>-</u>
Change in fund balances/net assets	<u>\$ (23,396,542)</u>	<u>\$ 18,710,007</u>	<u>\$ -</u>	<u>\$ (4,686,535)</u>

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, 2009

Change in fund balances - governmental funds \$(23,396,542)

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	\$24,192,417
Loss on disposal of equipment	(1,950)
Depreciation expense	(6,346,787)
Completed construction projects, less than capitalization threshold	<u>(129,089)</u>

Excess of capital outlays over depreciation expense	17,714,591
---	------------

- | | |
|--|------------------------------|
| (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. | 1,063,777 |
| (3) The increase in accrued vacation is not reported in governmental funds. | (68,361) |
| (4) Lapsed appropriations are net against appropriations in the statement of activities. | - |
| (5) Reclassify interest on long-term debt to function. | <u>-</u> |
| Change in net assets | <u><u>\$ (4,686,535)</u></u> |

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, 2009

	<u>Budgeted Amounts</u>	<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>(Budgetary Basis)</u>	<u>Final Budget -</u>
	<u>Final</u>		<u>Positive</u>
			<u>(Negative)</u>
Appropriations	\$32,743,127	\$37,335,205	\$ -
Expenditures:			
Economic development	1,924,653	1,778,928	183,500
Environmental protection	22,214,025	19,227,433	3,455,893
Culture and recreation	7,974,670	8,713,166	738,717
Public safety	629,779	1,238,266	1,999,302
Individual rights	-	<u>110,464</u>	<u>(110,464)</u>
Total expenditures	<u>32,743,127</u>	<u>37,335,205</u>	<u>6,266,948</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ 6,266,948</u>	<u>\$ 6,266,948</u>

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, 2009

	<u>Budgeted Amounts</u>		Actual (<u>Budgetary Basis</u>)	Variance with Final Budget - Positive (<u>Negative</u>)
	<u>Original</u>	<u>Final</u>		
<u>Federal Grant Fund</u>				
Revenues	\$15,185,826	\$39,920,390	\$17,500,271	\$(22,420,119)
Expenditures:				
Economic development	1,138,120	1,353,390	1,076,252	277,138
Environmental protection	9,429,078	26,506,015	11,016,723	15,489,292
Culture and recreation	4,274,775	5,534,925	5,398,984	135,941
Public safety	269,745	6,451,952	5,787,829	664,123
Individual rights	-	-	752	(752)
Government-wide support	74,108	74,108	2,205	71,903
Total expenditures	<u>15,185,826</u>	<u>39,920,390</u>	<u>23,282,745</u>	<u>16,637,645</u>
Excess of expenditures over revenues	\$ -	\$ -	\$ (5,782,474)	\$ (5,782,474)

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, 2009

	<u>Budgeted Amounts</u>	<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>(Budgetary Basis)</u>	<u>Final Budget -</u>
			<u>Positive</u>
			<u>(Negative)</u>
<u>Water and Land Development Fund</u>			
Revenues	\$ 553,104	\$ (72,319)	\$ (635,821)
Expenditures:			
Economic development	<u>553,104</u>	<u>9,743</u>	<u>553,759</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ (82,062)</u>	<u>\$ (82,062)</u>
<u>Ocean-Based Recreation Fund</u>			
Revenues	\$16,358,091	\$11,734,296	\$(4,943,016)
Expenditures:			
Culture and recreation	<u>16,358,091</u>	<u>10,870,865</u>	<u>5,806,447</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ 863,431</u>	<u>\$ 863,431</u>

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

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Notes To The Financial Statements
June 30, 2009

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, 2009, and for the year then ended.

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Notes To The Financial Statements
June 30, 2009

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.

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Notes To The Financial Statements
June 30, 2009

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.

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Notes To The Financial Statements
June 30, 2009

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, 2009, 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:

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Notes To The Financial Statements
June 30, 2009

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.

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Notes To The Financial Statements
June 30, 2009

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.

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Notes To The Financial Statements
June 30, 2009

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, 2009 was \$21,921,339.

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.

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Notes To The Financial Statements
June 30, 2009

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.

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Notes To The Financial Statements
June 30, 2009

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, 2009, 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 \$1,373,699 and \$510,850 in the general and major special revenue funds, respectively, as of June 30, 2009, are to be funded with monies budgeted for fiscal 2010. In addition, at June 30, 2009, the DLNR accrued expenditures of \$43,574 and \$264,598 in the general and major special revenue funds, respectively, for certain goods and services received through June 30, 2009, which the DLNR will fund with monies budgeted for fiscal 2010. 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, 2009 in accordance with accounting principles generally accepted in the United States of America.

The DLNR accrued certain salaries and wages as of June 30, 2008 and certain goods and services received through June 30, 2008, which the DLNR funded with monies budgeted for fiscal 2009. Accordingly, these amounts are included in the statements of revenues and expenditures - budget and actual, for the year ended June 30, 2009. These salaries, wages, goods and services aggregated \$1,378,124 and \$1,118,312 in the general and major special revenue funds, respectively.

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Notes To The Financial Statements
June 30, 2009

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, 2009.

	<u>Major Special Revenue Funds</u>			
	<u>General Fund</u>	<u>Federal Grant Fund</u>	<u>Water and Land Development Fund</u>	<u>Ocean-Based Recreation Fund</u>
Excess of revenues over (under) expenditures - actual on budgetary basis	\$ 6,266,948	\$(5,782,474)	\$ (82,062)	\$ 863,431
Current year's appropriations included in reserved for encumbrances at June 30, 2009	2,352,904	9,969,263	20	997,014
Expenditures for liquidation of prior years' encumbrances	(8,880,872)	(4,148,651)	(30,529)	(600,183)
Fiscal 2008 salaries and wages and other expenditures funded by fiscal 2009 budget	1,378,124	767,021	9,844	341,447
Fiscal 2009 salaries and wages funded by fiscal 2010 budget under Section 78-13 HRS	(1,373,699)	(174,697)	-	(336,153)
Fiscal 2009 expenditures funded by fiscal 2010 budget	<u>(43,574)</u>	<u>(159,045)</u>	<u>-</u>	<u>(105,553)</u>
Excess of revenues over (under) expenditures - GAAP basis	<u>\$ (300,169)</u>	<u>\$ 471,417</u>	<u>\$(102,727)</u>	<u>\$1,160,003</u>

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.

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Notes To The Financial Statements
June 30, 2009

At June 30, 2009, a portion of the State Treasury Investment Pool was invested in auction rate securities. Due to ongoing issues in the credit market of the United States, particularly related to auction rate securities, the State Treasury Investment Pool recorded a decrease in fair value related to its investments in auction rate securities. The change in fair value for DLNR amounts to approximately \$6.1 million, which is recorded against interest income in the accompanying financial statements and reflected as net investment loss.

As of June 30, 2009, the carrying amount, which approximates the bank balance of the DLNR's cash and short-term cash investments and adjusted for the decrease in fair value, was \$191,043,348 for its governmental funds and \$12,937,317 for its fiduciary funds.

4. RECEIVABLES

At June 30, 2009, receivables for general leases and licenses for governmental funds consisted of the following:

Rents, fees and licenses	\$ 1,091,567
Less allowance for doubtful accounts	<u>(1,083,426)</u>
	<u>\$ 8,141</u>

The Department has installment agreements with certain lessees for accounts receivable of the trust and agency fund which aggregated \$386,408 at June 30, 2009. These agreements provide for interest rates from 0% to 9.75% and payment terms from 1 to 30 years.

At June 30, 2009, receivables for general leases and licenses for fiduciary funds consisted of the following:

Rents, fees and licenses	\$1,332,766
Less allowance for doubtful accounts	<u>(732,363)</u>
	<u>\$ 600,403</u>

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Notes To The Financial Statements
June 30, 2009

5. CAPITAL ASSETS

The changes in capital assets were as follows:

	Beginning Balance <u>July 1, 2008</u>	Additions, Adjustments and Transfers	Disposals, Adjustments and Transfers	Ending Balance <u>June 30, 2009</u>
Capital assets, not being depreciated -				
Land	\$157,187,878	\$ -	\$ -	\$157,187,878
Land improvements	688,400	504,566	2,591,880	3,784,846
Construction-in-progress	111,037,285	18,401,751	(13,069,404)	116,369,632
Other assets	<u>31,590</u>	<u>-</u>	<u>-</u>	<u>31,590</u>
 Total capital assets, not being depreciated	 <u>268,945,153</u>	 <u>18,906,317</u>	 <u>(10,477,524)</u>	 <u>277,373,946</u>
 Capital assets, being depreciated -				
Buildings	32,017,085	2,861,258	14,961,165	49,839,508
Land improvements	83,654,777	(258,586)	(4,488,678)	78,907,513
Furniture and equipment	10,792,454	1,479,566	(41,414)	12,230,606
Motor vehicles	<u>15,069,508</u>	<u>1,203,861</u>	<u>(408,471)</u>	<u>15,864,898</u>
 Total capital assets, being depreciated	 <u>141,533,824</u>	 <u>5,286,099</u>	 <u>10,022,602</u>	 <u>156,842,525</u>
 Less: accumulated depreciation for -				
Buildings	(21,509,218)	(1,182,681)	(593,841)	(23,285,740)
Land improvements	(55,832,932)	(3,229,480)	581,435	(58,480,977)
Furniture and equipment	(7,846,211)	(883,414)	39,465	(8,690,160)
Motor vehicles	<u>(12,048,675)</u>	<u>(1,051,212)</u>	<u>296,825</u>	<u>(12,803,062)</u>
 Total accumulated depreciation	 <u>(97,237,036)</u>	 <u>(6,346,787)</u>	 <u>323,884</u>	 <u>(103,259,939)</u>
 Total capital assets, being depreciated, net	 <u>44,296,788</u>	 <u>(1,060,688)</u>	 <u>10,346,486</u>	 <u>53,582,586</u>
 Capital assets, net	 <u>\$313,241,941</u>	 <u>\$17,845,629</u>	 <u>\$ (131,038)</u>	 <u>\$330,956,532</u>

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Notes To The Financial Statements
June 30, 2009

Changes to capital assets consisted of the following:

Additions:	
Capital outlays and equipment purchases	<u>\$24,192,416</u>
Disposals:	
Disposed capital assets, at cost	\$ 325,834
Accumulated depreciation of disposed capital assets	<u>(323,884)</u>
Loss on disposal of capital assets	<u>\$ 1,950</u>

Depreciation expense for the year ended June 30, 2009, was charged to functions of the DLNR as follows:

Economic development	\$ 347,192
Environmental protection	2,507,455
Culture and recreation	3,163,049
Public safety	162,677
Individual rights	98,168
Government-wide support	<u>68,246</u>
	<u>\$6,346,787</u>

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Notes To The Financial Statements
June 30, 2009

6. LONG-TERM OBLIGATIONS

The changes in long-term obligations were as follows:

	Accrued <u>Vacation</u>	General Obligation <u>Bonds</u>
Balance at July 1, 2008	\$8,125,385	\$4,484,370
Principal payments	-	(1,063,777)
Net increase in accrued vacation	<u>68,362</u>	<u>-</u>
Balance at June 30, 2009	<u>\$8,193,747</u>	<u>\$3,420,593</u>

The following are portions of the State of Hawaii general obligation bonds allocated to the DLNR under Acts of various Session Laws of Hawaii. These bonds are backed by the full faith, credit and taxing power of the State. Repayment of allocated bond debts are made to the State general fund. The details of these general obligation bonds at June 30, 2009 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	412,078

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Notes To The Financial Statements
June 30, 2009

<p>\$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</p>	<p>\$338,268</p>
<p>\$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</p>	<p>317,272</p>
<p>\$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</p>	<p>336,876</p>
<p>\$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</p>	<p>62</p>
<p>\$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</p>	<p>6,552</p>
<p>\$576,754 series CT bonds dated September 15, 1999; due in varying annual installments commencing September 1, 2005 through final payment on September 1, 2012; 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</p>	<p>39,210</p>

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Notes To The Financial Statements
June 30, 2009

\$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	\$ 304,224
\$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	631,464
\$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	360,525
\$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	<u>468,352</u>
	<u>\$3,420,593</u>

Interest paid by the DLNR during the fiscal year ended June 30, 2009, approximated \$180,000.

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Notes To The Financial Statements
June 30, 2009

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

Fiscal year ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 730,000	\$130,096	\$ 860,096
2011	831,466	95,553	927,019
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	<u>5</u>	<u>-</u>	<u>5</u>
Total	<u>\$3,420,593</u>	<u>\$378,858</u>	<u>\$3,799,451</u>

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Notes To The Financial Statements
June 30, 2009

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 were required to join the hybrid plan.

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Notes To The Financial Statements
June 30, 2009

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, 2008, 2007, and 2006 were approximately \$377,475,000, \$341,896,000 and \$318,144,000, respectively. The State contributed 100% of its required contributions for those years. Covered payroll for the fiscal year ended June 30, 2008 was approximately \$2,657,906,000.

Post-Retirement Health Care and Life Insurance Benefits - The State provides certain health care and life insurance benefits to all qualified employees. Pursuant to Act 88, SLH of 2001, the State contributes to the EUTF, an agent multiple-employer defined benefit plan that replaced the Hawaii Public Employees Health Fund effective July 1, 2003. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees, and their dependents. The State also contributes to the Hawaii State Teachers Association (HSTA) Voluntary Employees Beneficiary Association (VEBA) Trust that was established effective March 1, 2006. HSTA VEBA provides health benefits only to HSTA members, retirees and their dependents. Both the EUTF and the HSTA VEBA plans currently provide medical, prescription drug, dental, vision, chiropractic, and group life insurance benefits. The EUTF issues an annual financial report that is available to the public. That report may be obtained by writing to the EUTF at 201 Merchant Street, Suite 1520, Honolulu, Hawaii 96813. The HSTA VEBA also issues an annual financial report that is available to the public. That report may be obtained by writing to the HSTA VEBA at 1350 South King Street, Suite 230, Honolulu, Hawaii 96814.

The eligibility requirements for retiree health benefits are the same for both plans as follows:

For employees hired before July 1, 1996, the State pays the entire base monthly contribution for employees retiring with 10 years or more of credited service, and 50% of the base monthly contribution for employees retiring with fewer than 10 years of credited service. A retiree can elect a family plan to cover dependents.

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Notes To The Financial Statements
June 30, 2009

For employees hired after June 30, 1996 but before July 1, 2001, and who retire with less than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For those employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Retirees in this category can elect a family plan to cover dependents.

For employees hired on or after July 1, 2001, and who retire with less than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For those employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Only single plan coverage is provided for retirees in this category. Retirees can elect family coverage but must pay the difference.

Cost of Retirement Benefits - The DLNR's general fund share of the retirement system expense for the fiscal year ended June 30, 2009 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 \$2,528,563 to the ERS for the fiscal year ended June 30, 2009.

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.

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Notes To The Financial Statements
June 30, 2009

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, 2009 approximated \$253,795 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 \$11,075,000 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, 2009, 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, 2009, the DLNR's special revenue funds were charged by the Department of Transportation, State of Hawaii, approximately \$42,000 for services rendered during the year in connection with the Small Boat Harbors and Boat Ramps Program. At June 30, 2009, the DLNR owed the Department of Transportation, State of Hawaii, approximately \$18,000 for these services.

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Notes To The Financial Statements
June 30, 2009

10. CENTRAL SERVICE AND ADMINISTRATION FEES

During the fiscal year ended June 30, 2009, the DLNR's special revenue funds were charged by the Department of Budget and Finance, State of Hawaii, approximately \$2,467,000 in central service and administration fees. At June 30, 2009, the DLNR owed the Department of Budget and Finance, State of Hawaii, approximately \$1,500,000 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, 2009, DLNR has recorded a liability to OHA and the State of Hawaii in the Ocean-Based Recreation Fund of approximately \$2,399,000 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.

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Notes To The Financial Statements
June 30, 2009

12. INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2009 consisted of the following:

Transfer To	Transfer From (To)						Total
	General Fund	Federal Grant Fund	Water and Land Development	Ocean-Based Recreation Fund	Capital Projects Fund	Nonmajor Governmental	
Federal Grant Fund	\$201,191	\$ -	\$ -	\$ 206,940	\$ -	\$ -	\$ 408,131
Water and Land Development	-	-	-	-	-	434,000	434,000
Capital Projects Fund	-	76,062	-	-	-	996,776	1,072,838
Nonmajor Governmental	-	86,000	1,945	1,490,888	-	11,221,711	12,800,544
Other Transfer, Net; Major and Nonmajor Governmental	<u>299,300</u>	<u>-</u>	<u>(434,000)</u>	<u>(206,940)</u>	<u>(1,072,838)</u>	<u>(19,422,091)</u>	<u>(20,836,569)</u>
Total	<u>\$500,491</u>	<u>\$162,062</u>	<u>\$(432,055)</u>	<u>\$1,490,888</u>	<u>\$(1,072,838)</u>	<u>\$(6,769,604)</u>	<u>\$(6,121,056)</u>

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

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 interest-free loans of up to \$2,000,000 and \$1,000,000 to DLNR whereby DBF would advance funds to DLNR for the sole purpose of paying project costs subject to federal reimbursement. The loans reflected an outstanding balance of \$895,495 as of June 30, 2009.

PART III
SUPPLEMENTAL SECTION

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2009

	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	\$9,663,179	\$7,351,887	\$523,712	\$532,350	\$3,779,264	\$212	\$2,408,146	\$1,201,898	\$300,668	\$7,901,905	\$11,960	\$33,675,181
Receivables:												
General leases and licenses, net of allowance for losses	-	-	-	-	5,539	-	237,370	-	-	-	21,599	292,416
Due from Federal Grant Fund	27,908	-	-	-	-	-	-	-	-	-	-	-
Total assets	<u>\$9,691,087</u>	<u>\$7,351,887</u>	<u>\$523,712</u>	<u>\$532,350</u>	<u>\$3,784,803</u>	<u>\$212</u>	<u>\$2,645,516</u>	<u>\$1,201,898</u>	<u>\$300,668</u>	<u>\$7,901,905</u>	<u>\$33,559</u>	<u>\$33,967,597</u>
LIABILITIES												
Vouchers and contracts payable	\$ 201,759	\$ 140	\$102,769	\$ 30,772	\$ 385,192	\$ -	\$ 547,306	\$ 18,418	\$ 22,828	\$1,072,260	\$ -	\$ 2,381,444
Accrued wages and employee benefits payable	259,281	-	183,535	4,539	46,567	-	-	14,723	79,762	86,839	3,381	678,627
Due to other State agencies	7,623	-	22,793	-	-	-	-	-	-	68,790	-	99,206
Deferred revenue	366,336	-	-	-	2,211	-	-	4,889	-	-	-	373,436
Security deposits	-	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	<u>834,999</u>	<u>140</u>	<u>309,097</u>	<u>35,311</u>	<u>433,970</u>	<u>-</u>	<u>547,306</u>	<u>38,030</u>	<u>102,590</u>	<u>1,227,889</u>	<u>3,381</u>	<u>3,532,713</u>
FUND BALANCES												
Reserved for:												
Encumbrances	1,368,203	4,572,125	7,051	33,881	1,055,135	-	2,026,827	11,646	16,423	4,539,107	-	13,630,398
Receivables	27,908	-	-	-	5,539	-	237,370	-	-	-	21,599	292,416
Unexpended Federal Awards	-	-	-	-	-	-	-	-	-	-	-	-
Total reserved fund balances	<u>1,396,111</u>	<u>4,572,125</u>	<u>7,051</u>	<u>33,881</u>	<u>1,060,674</u>	<u>-</u>	<u>2,264,197</u>	<u>11,646</u>	<u>16,423</u>	<u>4,539,107</u>	<u>21,599</u>	<u>13,922,814</u>
Unreserved:												
Unreserved reported in nonmajor - Special Revenue Funds	7,459,977	2,779,622	207,564	463,158	2,290,159	212	(165,987)	1,152,222	181,655	2,134,909	8,579	16,512,070
Total unreserved fund balances	<u>7,459,977</u>	<u>2,779,622</u>	<u>207,564</u>	<u>463,158</u>	<u>2,290,159</u>	<u>212</u>	<u>(165,987)</u>	<u>1,152,222</u>	<u>181,655</u>	<u>2,134,909</u>	<u>8,579</u>	<u>16,512,070</u>
Total fund balances	<u>8,856,088</u>	<u>7,351,747</u>	<u>214,615</u>	<u>497,039</u>	<u>3,350,833</u>	<u>212</u>	<u>2,098,210</u>	<u>1,163,868</u>	<u>198,078</u>	<u>6,674,016</u>	<u>30,178</u>	<u>30,434,884</u>
Total liabilities and fund balances	<u>\$9,691,087</u>	<u>\$7,351,887</u>	<u>\$523,712</u>	<u>\$532,350</u>	<u>\$3,784,803</u>	<u>\$212</u>	<u>\$2,645,516</u>	<u>\$1,201,898</u>	<u>\$300,668</u>	<u>\$7,901,905</u>	<u>\$33,559</u>	<u>\$33,967,597</u>

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2009

	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	Emergency Management Fund	Natural Physical Environment Fund	Donations, Gifts and Grants-Private & Gov't Fund	Preservation of Endangered Plants Fund	Subtotal Carried Forward
ASSETS												
Cash and short-term cash investments held in State Treasury	\$33,675,181	\$738,805	\$ 66,767	\$100,661	\$1,660,618	\$1,026,948	\$807,510	\$3,676,611	\$360,672	\$7,021,605	\$3,128	\$49,138,506
Receivables:												
General leases and licenses, net of allowance for losses	-	-	-	-	-	8,141	-	-	-	-	-	8,141
Due from Federal Grant Fund	292,416	-	-	-	-	-	-	-	-	-	-	292,416
Total assets	<u>\$33,967,597</u>	<u>\$738,805</u>	<u>\$ 66,767</u>	<u>\$100,661</u>	<u>\$1,660,618</u>	<u>\$1,035,089</u>	<u>\$807,510</u>	<u>\$3,676,611</u>	<u>\$360,672</u>	<u>\$7,021,605</u>	<u>\$3,128</u>	<u>\$49,439,063</u>
LIABILITIES												
Vouchers and contracts payable	\$ 2,381,444	\$ 5,963	\$ 5,815	\$ 2,965	\$ 259,290	\$ 100,656	\$ 24,767	\$ -	\$ 1,507	\$ 102,207	\$ -	\$ 2,884,614
Accrued wages and employee benefits payable	678,627	20,255	9,507	971	-	99,465	37,036	-	36,032	-	-	881,893
Due to other State agencies	99,206	-	-	-	-	-	-	-	-	-	-	99,206
Deferred revenue	373,436	-	-	-	-	172,005	-	-	-	3,437,253	-	3,982,694
Security deposits	-	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	<u>3,532,713</u>	<u>26,218</u>	<u>15,322</u>	<u>3,936</u>	<u>259,290</u>	<u>372,126</u>	<u>61,803</u>	<u>-</u>	<u>37,539</u>	<u>3,539,460</u>	<u>-</u>	<u>7,848,407</u>
FUND BALANCES												
Reserved for:												
Encumbrances	13,630,398	2,924	7,214	3,977	237,510	303,180	248,888	668,530	10,019	768,264	951	15,881,855
Receivables	292,416	-	-	-	-	8,141	-	-	-	-	-	300,557
Unexpended Federal awards	-	-	-	-	-	-	-	-	-	-	-	-
Total reserved fund balances	<u>13,922,814</u>	<u>2,924</u>	<u>7,214</u>	<u>3,977</u>	<u>237,510</u>	<u>311,321</u>	<u>248,888</u>	<u>668,530</u>	<u>10,019</u>	<u>768,264</u>	<u>951</u>	<u>16,182,412</u>
Unreserved:												
Unreserved reported in nonmajor - Special Revenue Funds	16,512,070	709,663	44,231	92,748	1,163,818	351,642	496,819	3,008,081	313,114	2,713,881	2,177	25,408,244
Total unreserved fund balances	<u>16,512,070</u>	<u>709,663</u>	<u>44,231</u>	<u>92,748</u>	<u>1,163,818</u>	<u>351,642</u>	<u>496,819</u>	<u>3,008,081</u>	<u>313,114</u>	<u>2,713,881</u>	<u>2,177</u>	<u>25,408,244</u>
Total fund balances	<u>30,434,884</u>	<u>712,587</u>	<u>51,445</u>	<u>96,725</u>	<u>1,401,328</u>	<u>662,963</u>	<u>745,707</u>	<u>3,676,611</u>	<u>323,133</u>	<u>3,482,145</u>	<u>3,128</u>	<u>41,590,656</u>
Total liabilities and fund balances	<u>\$33,967,597</u>	<u>\$738,805</u>	<u>\$ 66,767</u>	<u>\$100,661</u>	<u>\$1,660,618</u>	<u>\$1,035,089</u>	<u>\$807,510</u>	<u>\$3,676,611</u>	<u>\$360,672</u>	<u>\$7,021,605</u>	<u>\$3,128</u>	<u>\$49,439,063</u>

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2009

	Subtotal Brought Forward	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 Fund
ASSETS							
Cash and short-term cash investments held in State Treasury	\$49,138,506	\$14,965,257	\$34,680	\$5,305	\$575,397	\$255,556	\$64,974,701
Receivables:							
General leases and licenses, net of allowance and losses	8,141	-	-	-	-	-	8,141
Due from Federal Grant Fund	292,416	-	-	-	-	-	292,416
Total assets	<u>\$49,439,063</u>	<u>\$14,965,257</u>	<u>\$34,680</u>	<u>\$5,305</u>	<u>\$575,397</u>	<u>\$255,556</u>	<u>\$65,275,258</u>
LIABILITIES							
Vouchers and contracts payable	\$ 2,884,614	\$ 225,951	\$18,405	\$ -	\$ 5,697	\$ 21,104	\$ 3,155,771
Accrued wages and employee benefits payable	881,893	132,688	-	-	-	-	1,014,581
Due to other State agencies	99,206	-	-	-	-	-	99,206
Deferred revenue	3,982,694	-	-	-	-	-	3,982,694
Security deposits	-	-	-	-	39,600	-	39,600
Total liabilities	<u>7,848,407</u>	<u>358,639</u>	<u>18,405</u>	<u>-</u>	<u>45,297</u>	<u>21,104</u>	<u>8,291,852</u>
FUND BALANCES							
Reserved for:							
Encumbrances	15,881,855	1,407,150	1,875	-	125,309	90,188	17,506,377
Receivables	300,557	-	-	-	-	-	300,557
Unexpended Federal awards	-	13,199,468	-	-	-	-	13,199,468
Total reserved fund balances	<u>16,182,412</u>	<u>14,606,618</u>	<u>1,875</u>	<u>-</u>	<u>125,309</u>	<u>90,188</u>	<u>31,006,402</u>
Unreserved:							
Unreserved reported in nonmajor - Special Revenue Funds	25,408,244	-	14,400	5,305	404,791	144,264	25,977,004
Total unreserved fund balances	<u>25,408,244</u>	<u>-</u>	<u>14,400</u>	<u>5,305</u>	<u>404,791</u>	<u>144,264</u>	<u>25,977,004</u>
Total fund balances	<u>41,590,656</u>	<u>14,606,618</u>	<u>16,275</u>	<u>5,305</u>	<u>530,100</u>	<u>234,452</u>	<u>56,983,406</u>
Total liabilities and fund balances	<u>\$49,439,063</u>	<u>\$14,965,257</u>	<u>\$34,680</u>	<u>\$5,305</u>	<u>\$575,397</u>	<u>\$255,556</u>	<u>\$65,275,258</u>

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, 2009

	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	8,113,220	-	3,350,735	210,872	95,443	-	-	68,059	-	-	51,826	11,890,331
Taxes, fuel and others	-	2,378,749	-	-	-	-	-	-	-	5,948,554	-	8,327,303
Net investment (loss) gain	(582,626)	(447,848)	(37,269)	(39,248)	(252,650)	1,632	(153,537)	(82,540)	(26,180)	(465,811)	(932)	(2,087,009)
Other	1,602,353	13,000	4,198	250,000	532,483	-	1,400	938	17,964	13,341	-	2,435,677
Total revenues	<u>9,132,947</u>	<u>1,943,901</u>	<u>3,317,664</u>	<u>421,624</u>	<u>375,276</u>	<u>1,632</u>	<u>(152,137)</u>	<u>(13,543)</u>	<u>(8,040)</u>	<u>5,496,084</u>	<u>50,894</u>	<u>20,566,302</u>
Expenditures												
Current:												
Economic development	-	-	-	282,164	3,435,790	-	2,872,147	404,156	1,397,197	8,069,677	-	3,717,954
Environmental protection	-	-	-	-	-	-	-	-	-	-	-	12,743,177
Culture and recreation	-	-	-	-	-	-	-	-	-	-	71,626	71,626
Public safety	-	-	-	-	-	-	-	-	-	-	-	-
Individual rights	-	-	3,917,521	-	-	-	-	-	-	-	-	3,917,521
Government-wide support	6,832,526	4,033,354	-	-	-	-	-	-	-	-	-	10,865,880
Total expenditures	<u>6,832,526</u>	<u>4,033,354</u>	<u>3,917,521</u>	<u>282,164</u>	<u>3,435,790</u>	<u>-</u>	<u>2,872,147</u>	<u>404,156</u>	<u>1,397,197</u>	<u>8,069,677</u>	<u>71,626</u>	<u>31,316,158</u>
Excess of revenues over (under) expenditures	<u>2,300,421</u>	<u>(2,089,453)</u>	<u>(599,857)</u>	<u>139,460</u>	<u>(3,060,514)</u>	<u>1,632</u>	<u>(3,024,284)</u>	<u>(417,699)</u>	<u>(1,405,237)</u>	<u>(2,573,593)</u>	<u>(20,732)</u>	<u>(10,749,856)</u>
Other financing sources (uses)												
Operating transfers in	4,453,881	4,316,809	921,230	293,142	5,171,185	-	3,270,442	1,495,647	1,692,921	6,248,369	54,155	27,917,781
Operating transfers out	(8,335,819)	(7,006,765)	(519,431)	(311,966)	(2,807,387)	(90,659)	(23,545)	(1,218,775)	(4,384)	(11,182,957)	(14,581)	(31,516,269)
Total other financing sources (uses)	<u>(3,881,938)</u>	<u>(2,689,956)</u>	<u>401,799</u>	<u>(18,824)</u>	<u>2,363,798</u>	<u>(90,659)</u>	<u>3,246,897</u>	<u>276,872</u>	<u>1,688,537</u>	<u>(4,934,588)</u>	<u>39,574</u>	<u>(3,598,488)</u>
Net change in fund balances	<u>(1,581,517)</u>	<u>(4,779,409)</u>	<u>(198,058)</u>	<u>120,636</u>	<u>(696,716)</u>	<u>(89,027)</u>	<u>222,613</u>	<u>(140,827)</u>	<u>283,300</u>	<u>(7,508,181)</u>	<u>18,842</u>	<u>(14,348,344)</u>
Fund balances at July 1, 2008	<u>10,437,605</u>	<u>12,131,156</u>	<u>412,673</u>	<u>376,403</u>	<u>4,047,549</u>	<u>89,239</u>	<u>1,875,597</u>	<u>1,304,695</u>	<u>(85,222)</u>	<u>14,182,197</u>	<u>11,336</u>	<u>44,783,228</u>
Fund balances at June 30, 2009	<u>\$ 8,856,088</u>	<u>\$ 7,351,747</u>	<u>\$ 214,615</u>	<u>\$ 497,039</u>	<u>\$ 3,350,833</u>	<u>\$ 212</u>	<u>\$ 2,098,210</u>	<u>\$ 1,163,868</u>	<u>\$ 198,078</u>	<u>\$ 6,674,016</u>	<u>\$ 30,178</u>	<u>\$ 30,434,884</u>

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, 2009

	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	Emergency Management Fund	Natural Physical Environment Fund	Donations, Gifts and Grants-Private & Gov't Fund	Preservation of Endangered Plants Fund	Subtotal Carried Forward
Revenues												
Intergovernmental revenues	\$ -	\$ -	\$ 167,546	\$ 43,823	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
General leases, licenses and permits	11,890,331	63,159	167,546	43,823	-	1,953,853	1,085	-	-	-	-	14,119,797
Taxes, fuel and others	8,327,303	350,000	-	-	900,000	-	-	-	-	-	-	9,577,303
Net investment (loss) gain	(2,087,009)	(50,490)	(5,082)	(7,110)	(143,806)	(32,884)	(71,402)	-	(23,564)	(214,101)	(59)	(2,635,507)
Other	2,435,677	3,709	325	1,535	110	235,950	-	-	-	736,133	-	3,413,439
Total revenues	20,566,302	366,378	162,789	38,248	756,304	2,156,919	(70,317)	-	(23,564)	522,032	(59)	24,475,032
Expenditures												
Current:												
Economic development	3,717,954	-	-	-	-	-	-	-	-	-	-	3,717,954
Environmental protection	12,743,177	-	-	-	-	-	-	-	481,244	-	100	13,224,521
Culture and recreation	71,626	468,823	126,302	36,032	643,330	3,093,637	113,561	23,390	-	-	-	4,439,750
Public safety	-	-	-	-	-	-	-	-	-	-	-	136,951
Individual rights	3,917,521	-	-	-	-	-	-	-	-	2,245,272	-	3,917,521
Government-wide support	10,865,880	-	-	-	-	-	-	-	-	-	-	13,111,152
Total expenditures	31,316,158	468,823	126,302	36,032	643,330	3,093,637	113,561	23,390	481,244	2,245,272	100	38,547,849
Excess of revenues over (under) expenditures	(10,749,856)	(102,445)	36,487	2,216	112,974	(936,718)	(183,878)	(23,390)	(504,808)	(1,723,240)	(159)	(14,072,817)
Other financing sources (uses)												
Operating transfers in	27,917,781	766,241	29,021	90,809	1,178,516	1,099,871	659,585	3,700,001	851,024	7,903,318	3,277	44,199,444
Operating transfers out	(31,516,269)	(766,866)	(5,021)	(90,809)	(1,178,516)	(245,616)	(639,585)	-	(285,948)	(2,697,933)	(3,277)	(37,429,840)
Total other financing sources (uses)	(3,598,488)	(625)	24,000	-	-	854,255	20,000	3,700,001	565,076	5,205,385	-	6,769,604
Net change in fund balances	(14,348,344)	(103,070)	60,487	2,216	112,974	(82,463)	(163,878)	3,676,611	60,268	3,482,145	(159)	(7,303,213)
Fund balances at July 1, 2008	44,783,228	815,657	(9,042)	94,509	1,288,354	745,426	909,585	-	262,865	-	3,287	48,893,869
Fund balances at June 30, 2009	\$ 30,434,884	\$ 712,587	\$ 51,445	\$ 96,725	\$ 1,401,328	\$ 662,963	\$ 745,707	\$ 3,676,611	\$ 323,133	\$ 3,482,145	\$ 3,128	\$ 41,590,656

DEPARTMENT OF LAND AND NATURAL RESOURCES

STATE OF HAWAII

Combining Statement Of Revenue, Expenditures And Changes In Fund Balances -
Nonmajor Governmental Funds
For The Year Ended June 30, 2009

	Subtotal Brought Forward	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 Fund
Revenues							
Intergovernmental revenue	\$ -	\$ 326,935	\$ -	\$ -	\$ -	\$ -	\$ 326,935
General leases, licenses and permits	14,119,797	-	-	-	-	-	14,119,797
Taxes, fuel and others	9,577,303	-	-	-	-	-	9,577,303
Net investment (loss) gain	(2,635,507)	(1,218,032)	-	112	(12,047)	(7,933)	(3,873,407)
Other	3,413,439	104,780	34,680	-	178,658	228,000	3,959,557
Total revenues	<u>24,475,032</u>	<u>(786,317)</u>	<u>34,680</u>	<u>112</u>	<u>166,611</u>	<u>220,067</u>	<u>24,110,185</u>
Expenditures							
Current:							
Economic development	3,717,954	-	-	-	-	108,966	3,826,920
Environmental protection	13,224,521	4,144,576	18,405	-	207,870	-	17,595,372
Culture and recreation	4,439,750	-	-	-	-	-	4,439,750
Public safety	136,951	-	-	-	-	-	136,951
Individual rights	3,917,521	-	-	-	-	-	3,917,521
Government-wide support	13,111,152	-	-	10,034	-	-	13,121,186
Total expenditures	<u>38,547,849</u>	<u>4,144,576</u>	<u>18,405</u>	<u>10,034</u>	<u>207,870</u>	<u>108,966</u>	<u>43,037,700</u>
Excess of revenues over (under) expenditures	<u>(14,072,817)</u>	<u>(4,930,893)</u>	<u>16,275</u>	<u>(9,922)</u>	<u>(41,259)</u>	<u>111,101</u>	<u>(18,927,515)</u>
Other financing sources (uses)							
Operating transfers in	44,199,444	15,000,000	28,800	-	463,552	64,024	59,755,820
Operating transfers out	(37,429,840)	(15,000,000)	(28,800)	-	(463,552)	(64,024)	(52,986,216)
Total other financing sources (uses)	<u>6,769,604</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,769,604</u>
Net change in fund balances	<u>(7,303,213)</u>	<u>(4,930,893)</u>	<u>16,275</u>	<u>(9,922)</u>	<u>(41,259)</u>	<u>111,101</u>	<u>(12,157,911)</u>
Fund balances at July 1, 2008	<u>48,893,869</u>	<u>19,537,511</u>	<u>-</u>	<u>15,227</u>	<u>571,359</u>	<u>123,351</u>	<u>69,141,317</u>
Fund balances at June 30, 2009	<u>\$ 41,590,656</u>	<u>\$ 14,606,618</u>	<u>\$ 16,275</u>	<u>\$ 5,305</u>	<u>\$ 530,100</u>	<u>\$ 234,452</u>	<u>\$ 56,983,406</u>

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009

Federal Grantor/ Pass-through Grantor/Program Title	Federal CFDA Number	Grant Number	Grant Award	Federal Expenditures
<u>U.S. Department of Agriculture</u>				
Animal & Plant Health Inspection Service - Chronic Wasting Disease Surveillance & Mgt	10.025	07-9715-1400-CA	\$ 48,000	\$ 21,778
Avian Influenza Surveillance Program	10.028	07-7100-0158-CA	75,000	6,747
Avian Influenza Surveillance Program	10.028	08-7100-0158-CA	70,000	60,243
			<u>145,000</u>	<u>66,990</u>
Natural Resources Conservation Service - Kanaha Pond Wetland Reserve Program	10.072	66-9251-6-719	109,350	72,000
Kihapai Wetland	10.072	66-9251-5-681	99,994	-
Waiohuli Wildfire Revegetation	10.072	68-9251-8-783	18,600	18,600
Kanaha Wildlife Sanctuary	10.072	66-9251-8-781	382,500	-
			<u>610,444</u>	<u>90,600</u>
Makaua Stream Homes Protection	10.904	68-9251-8-805	1,000,000	569,989
Wildlife Habitat Incentives Program	10.914	72-9251-5A-163	80,642	4,777
Kure Atoll	10.914	72-9251-6A-119	143,400	46,657
Pouhala Marsh	10.914	72-95251-6A-120	102,000	7,306
Hamakua Marsh	10.914	72-95251-6A-138	89,625	5,611
Kawaiele Wetland	10.914	72-9251-0-7073	251,850	1,050
Puu Mali Watershed	10.914	72-9251-0-706Q	344,250	24,300
Mokulua & Manana Islets Restoration	10.914	72-9251-0-702V	177,252	63,075
Paiko Lagoon	10.914	72-9251-0-702U	29,820	1,665
Kaukaikapapa	10.914	66-9251-6721	127,800	4,950
Kealialalo	10.914	66-9251-6720	148,500	19,560
			<u>1,495,139</u>	<u>178,951</u>
Forest Service - Wildland Urban Interface	10.664	06-DG-11052012-172	646,300	100
Cooperative Fire Protection Program	10.664	06-DG-11052012-173	575,000	100
Cooperative Fire Protection Program	10.664	07-DG-11052012-109	600,000	166,667
Wildland Urban Interface	10.664	07-DG-11052012-110	77,500	100
Wildland Urban Interface	10.664	08-DG-11052012-118	584,806	211,430
Cooperative Fire Protection Program	10.664	08-DG-11052012-160	520,000	370,000
Statewide Assessment & Resource Strategy (SWARS)	10.664	09-DG-11052021-107	75,000	-
Cooperative Fire Protection Program	10.664	09-DG-11052012-255	909,457	-
Wildland Urban Interface	10.664	09-DG-11052012-261	350,000	-
			<u>4,338,063</u>	<u>748,397</u>
Rural Development Through Forestry	10.672	05-DG-11052021-071	70,650	-
Urban & Community Forestry	10.675	05-DG-11052021-110	348,000	24,231
Urban & Community Forestry	10.675	06-DG-11052021-212	223,000	100
Urban & Community Forestry	10.675	07-DG-11052021-176	268,000	94,706
Urban & Community Forestry	10.675	08-DG-11052021-228	250,000	128,780
Urban & Community Forestry	10.675	09-DG-11052021-172	250,000	-
			<u>1,339,000</u>	<u>247,817</u>

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, 2009

Federal Grantor/ Pass-through Grantor/Program Title	Federal CFDA Number	Grant Number	Grant Award	Federal Expenditures
<u>U.S. Department of Agriculture (Continued)</u>				
Forest Legacy Program	10.676	06-DG-11052021-245	\$ 20,000	\$ 968
Forest Legacy Program	10.676	07-DG-11052021-175	30,000	20,219
Forest Legacy - Kealakekua Ranch Phase I	10.676	07-CA-11052021-178	2,000,000	-
Forest Legacy Administration	10.676	08-DG-11052021-128	43,000	7,054
Forest Legacy - Kealakekua Ranch Phase II Acquisition	10.676	08-CA-11052021-127	1,968,000	-
Forest Legacy	10.676	09-DG-11052021-181	30,000	-
			<u>4,091,000</u>	<u>28,241</u>
Forest Stewardship Program	10.678	04-DG-11052021-088	197,600	42,670
Forest Stewardship Program	10.678	07-DG-11052021-159	105,000	9,000
Forest Stewardship Program - LiDar Project	10.678	07-DG-11052021-208	22,500	2,819
Forest Stewardship and Conservation Education Programs	10.678	08-DG-11052021-193	105,000	95,000
Forest Stewardship Program	10.678	09-DG-11052021-180	90,000	-
			<u>520,100</u>	<u>149,489</u>
Evaluation Monitoring: New Rust Disease on Myrtaceae	10.680	06-DG-11052021-201	52,000	18,833
Forest Health Protection	10.680	07-DG-11052021-174	75,000	9,737
Forest Health Protection - Invasive Plants	10.680	07-DG-11052021-203	437,000	235,574
Forest Health Monitoring Aerial Survey	10.680	07-DG-11052021-136	40,000	5,136
Forest Health Protection	10.680	08-DG-11052021-130	85,000	83,350
Forest Health Protection - Invasive Plants	10.680	08-DG-11052021-132	440,000	224,425
Forest Health Protection - Invasive Plants	10.680	09-DG-11052021-110	440,000	-
Forest Health Protection	10.680	09-DG-11052021-170	96,000	-
			<u>1,665,000</u>	<u>577,055</u>
Total U.S. Department of Agriculture			<u>15,322,396</u>	<u>2,679,307</u>
<u>U.S. Department of Commerce</u>				
National Oceanic and Atmospheric Administration - Web-Based Internet Commercial Marine Licensing System	11.407	NA04NMF4070127	71,636	2,600
Web-Based Internet Commercial Marine Licensing System	11.407	NA07NMF4070008	48,659	21,717
			<u>120,295</u>	<u>24,317</u>
Hawaii Coral Reef Management Program	11.419	NA05NOS4191014	420,768	85,367
Hawaii Coral Reef Management Program	11.419	NA06NOS4190101	513,000	232,630
Hawaii Coral Reef Management Program	11.419	NA07NOS4190054	593,000	281,031
Coral Reef Management	11.419	NA08NOS4190389	629,000	81,215
			<u>2,155,768</u>	<u>680,243</u>
Hawaii Coral Reef Monitoring Program	11.426	NA06NOA4260113	369,289	117,431
Marine Sanctuary Program	11.429	MOA-2007-027	712,740	504,835

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, 2009

Federal Grantor/ Pass-through Grantor/Program Title	Federal CFDA Number	Grant Number	Grant Award	Federal Expenditures
<u>U.S. Department of Commerce (Continued)</u>				
Hawaii Marine Recreational Fishing Survey	11.437	NA07NMF4370066	\$ 145,000	\$ 100
Western Pacific Fishery Information Network	11.437	NA07NMF4370065	351,000	105,174
Marine Recreational Fishing Survey	11.437	NA08NMF4370512	285,000	227,139
			<u>781,000</u>	<u>332,413</u>
Fisheries Disaster Relief Program	11.452	NA03NMF4520452	<u>5,000,000</u>	<u>12,162</u>
Assessment of Carijoa Riisei	11.463	NA07NMF4630181	50,000	17,017
Molokai Invasive Species Control	11.463	2008-0061-001	10,000	-
			<u>60,000</u>	<u>17,017</u>
Conservation of Hawaiian Monk Seals & Sea Turtles	11.472	NA07NMF4720055	<u>152,840</u>	<u>94,986</u>
Investigating Deep Coral Reefs of Hawaii	11.478	NA07NOS4780189	<u>134,700</u>	<u>46,350</u>
2006 Joint Enforcement Agreement	11.UNK		154,153	145,835
Fine Scale Habitat Characterization VENDOR	11.UNK	DG133C04SE1197	100,000	31,822
2007 Joint Enforcement Agreement	11.UNK		299,989	122,754
			<u>554,142</u>	<u>300,411</u>
Total U.S. Department of Commerce			<u>10,040,774</u>	<u>2,130,165</u>
<u>U.S. Department of Defense</u>				
Department of the Navy - Kaho'olawe Rehabilitation Trust	12.UNK	12.UNK	<u>44,014,410</u>	<u>4,337,994</u>
Total U.S. Department of Defense			<u>44,014,410</u>	<u>4,337,994</u>
<u>U.S. Department of the Interior</u>				
Fish and Wildlife Service -				
Replacement of Comfort Station at Heeia-Kea Small Boat Harbor	15.605	F-19-B-33	187,500	-
Pohoiki Boat Ramp and Loading Dock	15.605	F-19-B-35	697,500	55,783
Loading Dock Replacement at the Waianae Small Boat Harbor, Waianae, Oahu	15.605	F-19-B-36	172,500	54,938
Waikaea Boat Ramp Dredging & Revetment Repair	15.605	F-19-B-38	45,000	2,033
Design for the Maintenance Dredging & Minor Loading Dock Repair at Kihei and Mala Boat Ramps, Maui, Hawaii	15.605	F-19-B-39	750,000	23,362
Aquatic Resources Education	15.605	F-18-AE-21	300,000	19,685
Statewide Freshwater Fisheries Development	15.605	F-11-D-32	261,000	100
Statewide Marine Fisheries Development	15.605	F-12-D-32	730,000	173,481
Coordination of Statewide Sports Fish Restoration Program	15.605	F-13-C-32	78,750	289

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, 2009

Federal Grantor/ Pass-through Grantor/Program Title	Federal CFDA Number	Grant Number	Grant Award	Federal Expenditures
<u>U.S. Department of the Interior (Continued)</u>				
Statewide Freshwater Fisheries Technical Guidance	15.605	F-15-T-32	\$ 24,000	\$ 5,424
Statewide Marine Fisheries Technical Guidance	15.605	F-16-T-32	63,000	4,877
Statewide Marine Fisheries Research & Surveys	15.605	F-17-R-32	1,188,000	207,036
Freshwater Fisheries Research & Surveys	15.605	F-14-R-32	243,750	15,531
Statewide Freshwater Fisheries Development	15.605	F-11-D-33	261,000	261,000
Statewide Marine Fisheries Development	15.605	F-12-D-33	925,000	482,494
Coordination of Statewide Sport Fish Restoration Program	15.605	F-13-C-33	78,750	49,322
Freshwater Fisheries Research & Surveys	15.605	F-14-R-33	296,250	249,050
Statewide Freshwater Fisheries Technical Guidance	15.605	F-15-T-33	26,250	25,666
Statewide Marine Fisheries Technical Guidance	15.605	F-16-T-33	93,000	93,000
Statewide Marine Fisheries Research & Surveys	15.605	F-17-R-33	1,275,000	1,001,402
Aquatic Resources Education	15.605	F-18-AE-22	316,500	160,217
			8,012,750	2,884,690
Hawaii Year One Aquatic Invasive Species	15.608	122004G029	199,926	4,546
Updating Hunter Education Classes	15.608	122004G017	30,000	15,017
Mauna Kea Dry Forest Restoration	15.608	122006G014	270,000	98,284
Avian Influenza Surveillance Program	15.608	122007J001	221,600	24,887
Invasive Species Early Detection	15.608	122006G013	4,500	-
Investigation of Barn Owls as Predators	15.608	122007J003	8,715	1
Mauna Kea Dry Forest Restoration	15.608	20060094015	25,000	-
Habitattitude Program for Outer Main Hawaiian Islands	15.608	601817G287	14,576	(170)
Helicopter Water Dip Tanks Construction - Mauna Kea	15.608	122008G015	230,000	-
Mauna Kea Feral Ungulate Removal	15.608	122008G018	120,000	12,925
Ungulate Fencing for Palila Recovery	15.608	122008G029	900,000	-
Watershed Atlas Project	15.608	122008G008	25,000	24,900
Kuia NAR Fence Maintenance & Weed Control	15.608	122008J019	77,868	-
Alakai Wilderness Fence Maintenance & Weed Control	15.608	122008J020	22,000	-
Kula NAR Fence Maintenance & Weed Control	15.608	122009G005	77,868	-
Alala Restoration Coordinator	15.608	122006G016	99,000	-
			2,326,053	180,390
Conservation Education Facility, Waimea	15.611	FW-1-DE-1	857,000	1,276
Conservation Management - Kauai Hunting Units	15.611	122004G018	77,500	100
Mokihana Ridge - Waialae Trail Project	15.611	122004G030	20,000	3,951
Hawaii Game Management Program	15.611	W-22-G-13	860,000	209,794
Hawaii Non-Game Management Program	15.611	W-23-NG-13	230,710	17,877
Hawaii Hunter Education Program	15.611	W-21-HS-31	554,375	14,563
Hunter Education Program	15.611	W-21-HS-32	417,675	416,000
Hawaii Range Development	15.611	W-24-D-1	80,000	-
Hawaii Game Management Program	15.611	W-22-G-14	900,000	666,991
Hawaii Non-Game Management Program	15.611	W-23-NG-14	238,643	224,911
			4,235,903	1,555,463

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, 2009

Federal Grantor/ Pass-through Grantor/Program Title	Federal CFDA Number	Grant Number	Grant Award	Federal Expenditures
<u>U.S. Department of the Interior (Continued)</u>				
Restoration of Coastal Wetlands on Mana Place	15.614	C-5-HM-1	\$ 1,000,000	\$ 23,132
Kawainui Marsh Wetland Restoration	15.614	C-7-HM-1	646,250	217,052
Pouhala Marsh Restoration & Community Development	15.614	C-4-HM-1	400,000	13,507
Kure Atoll Restoration Project	15.614	C-8-HM-1	400,000	54,776
Nu'u Coastal Wetlands Refuge	15.614	C-6-L-1	1,000,000	-
			<u>3,446,250</u>	<u>308,467</u>
Statewide Endangered Plant Program	15.615	E-2-MP-3	492,962	100
Candidate Conservation Grants-Development of Candidate Conservation Agreements	15.615	E-4-CC-1	981,899	138,848
Recovery Land Acquisition Program Grants	15.615	E-6-RL-1	150,000	-
Safe Harbor Grants - Development of Safe Harbor Agreements	15.615	E-3-SH-1	1,147,186	100
Statewide Endangered Plant Program	15.615	E-2-MP-4	649,950	55,258
HCP Planning Assistance - Dev of an HCP for Game Mammal Mgmt in North Kona, HI Yr2	15.615	E-5-HP-2	346,583	5,830
Coordination and Planning of Programmatic HCP for E&T Seabirds on Kauai, Hawaii	15.615	E-8-HP-1	148,989	21,300
Statewide Endangered Wildlife Program	15.615	E-2-8	505,533	54,229
Statewide Endangered Plant Program	15.615	E-2-MP-7	579,863	54,125
Recovery Land Acquisition; Carlsmith Trust Property	15.615	E-10-RL-1	875,000	4,585
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	(7)
Statewide Endangered Plant Program	15.615	E-2-MP-8	713,537	119,540
Statewide Endangered Wildlife Program	15.615	E-2-9	639,207	246,673
Endangered Maui Forest Bird	15.615	122007J011	115,000	31,689
Statewide Endangered Plant Program	15.615	E-2-MP-9	679,932	207,673
Statewide Endangered Wildlife Program	15.615	E-2-10	605,707	80,583
Nu'u Makai Wetlands - Preservation & Habitat	15.615	E-13-RL-1	1,794,500	111
Regional Multi-Species Habitat Conservation	15.615	E-14-HP-1	367,718	133,755
Kilauea Coastal Preserve & Habitat Restoration	15.615	E-15-RL-1	2,759,181	1,856
State Endangered Wildlife Program	15.615	E-2-11	709,228	419,559
Statewide Endangered Plant Program	15.615	E-2-MP-10	709,228	459,766
Honouliuli Preserve Acquisition & Habitat Restoration	15.615	E-16-RL-1	627,809	-
Kawa Bay Acquisition & Habitat Restoration	15.615	E-17-RL-1	1,000,000	-
Hamakua Marsh Watershed Acquisition & Habitat Restoration	15.615	E-18-RL-1	740,000	-
			<u>19,052,126</u>	<u>2,035,573</u>
Statewide Clean Vessel Program	15.616	F-V-1-1	623,000	191,596
Kaena Point Seabird Habitat Restoration	15.617	P-3-MP	50,000	3,909
Construction of Tie-Up Facilities for Transient Vessels at Ala Wai Small Boat Harbor, Oahu, Hawaii	15.622	Y-4-D-1	100,000	-

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, 2009

Federal Grantor/ Pass-through Grantor/Program Title	Federal CFDA Number	Grant Number	Grant Award	Federal Expenditures
<u>U.S. Department of the Interior (Continued)</u>				
Construction of Tie-Up Facilities for Transient Vessels at Ala Wai Small Boat Harbor, Oahu, Hawaii	15.622	Y-5-D-1	\$ 100,000	\$ -
Construction of Tie-Up Facilities for Transient Vessels at Ala Wai Small Boat Harbor, Oahu, Hawaii	15.622	Y-6-D-1	100,000	-
			<u>300,000</u>	<u>-</u>
Kauai Wetlands Acquisition & Restoration Phase 1	15.623	N11B	<u>1,000,000</u>	<u>-</u>
Preventing the Extinction of Hawaii's Rarest Plants	15.631	122005G007	60,000	-
Helemano Watershed Management Project	15.631	122005G014	38,785	1,364
Hilo Forest Reserve Feral Cattle Hunt	15.631	122005G012	29,850	7,111
Kohala Mountain Watershed Management	15.631	122005G011	15,000	100
Control Feral Cats on Kahoolawe	15.631	122009G020	10,409	4,824
			<u>154,044</u>	<u>13,399</u>
Landowner Incentive Program, Tier 1	15.633	I-1-1	180,000	16,796
Landowner Incentive Program, Tier 2	15.633	I-2-1	1,551,750	42,527
Landowner Incentive Program, Tier 1	15.633	I-3-1	180,000	53,089
Landowner Incentive Program, Tier 2	15.633	I-4-D-1	1,120,000	48,272
Landowner Incentive Program, Tier 2	15.633	I-5-HM-1	314,446	18,379
Landowner Incentive Program, Tier 1	15.633	I-6-1	180,000	3,586
			<u>3,526,196</u>	<u>182,649</u>
Statewide Wildlife Grant Program	15.634	T-2-1-1	389,940	31,021
Native Dryland and Mesic Forest Protection & Restoration	15.634	U-2-M-1	501,270	100
State Wildlife Grant Program I - Planning and Coordination of Statewide Program of Terrestrial Wildlife Conservation	15.634	T-1-P-2	175,420	35,398
State Wildlife Grant Program II - Implementation of Statewide Program of Terrestrial Wildlife Conservation	15.634	T-2-2	407,340	624
Statewide Wildlife Grant Program I	15.634	T-1-P-3	188,000	61,895
Statewide Wildlife Grant Program II	15.634	T-2-3	424,020	39,272
State Wildlife Grant Program I - Planning & Coordination of Statewide Program of Terrestrial Wildlife Conservation	15.634	T-1-P-4	198,000	(34,414)
State Wildlife Grant Program II - Implementation of Statewide Program of Terrestrial Wildlife Conservation	15.634	T-2-4	422,887	38,971
SWG I - State Wildlife Grant	15.634	T-2-5	204,446	52,275
SWG C - State Wildlife Grant	15.634	T-1-P-5	245,054	100
Aquatic Wildlife Conservation	15.634	T-3-P-2	150,000	16,432
State Wildlife Grant Implementation	15.634	T-2-6	457,549	88,203
Aquatic Wildlife Conservation	15.634	T-3-P-3	100,000	97,982
Aquatic Wildlife Conservation	15.634	T-3-P-4	100,000	52,860
State Wildlife Grant Implementation	15.634	T-2-7	506,000	378,802
			<u>4,469,926</u>	<u>859,521</u>

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, 2009

Federal Grantor/ Pass-through Grantor/Program Title	Federal CFDA Number	Grant Number	Grant Award	Federal Expenditures
<u>U.S. Department of the Interior (Continued)</u>				
Hawaii Aquatic Invasive Species	15.649	1220-07-G017	\$ 56,600	\$ 45,624
Ahupua'a Pu'u Wa'awa'a Coordination	15.FFB	122003G014	60,000	-
Kau Forest Reserve	15.FFB	122003G033	22,000	5,230
Alala Conservation Cooperative Initiative	15.FFB	122003G037	35,000	33,713
Mauna Kea Forest Reserve Fence Repair: Northwest Section	15.FFB	122003G038	92,000	54,924
Kauai Bog Endangered Species Management	15.FFB	122004G032	64,884	352
			<u>273,884</u>	<u>94,219</u>
United States Geological Survey - Avian Surveillance Plan	15.808	08ERAG0062	40,000	31,969
National Park Service -				
FY06 Historic Preservation Annual Grant	15.904	15-06-21514	482,959	47,499
FY07 Historic Preservation Annual Grant	15.904	15-07-21615	495,273	-
FY08 Historic Preservation Annual Grant	15.904	15-08-21716	512,991	195,455
FY09 Historic Preservation Annual Grant	15.904	15-09-21817	538,629	279,282
			<u>2,029,852</u>	<u>522,236</u>
Park Improvements, Isaac Hale Beach Park, County of Hawaii	15.916	15-00148	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	50,000
Isaac Hale Memorial Park - Phase II Improvements	15.916	15-00159	350,000	350,000
Geiger Community Park Phase 2 Improvements - Oahu	15.916	15-00155	660,000	-
Lava Tree State Monument Improvements - Big Island	15.916	15-00157	200,000	-
			<u>2,242,824</u>	<u>400,000</u>
Preserve America	15.929	15-07-PA-3015	51,727	12,660
Total U.S. Department of the Interior			<u>51,891,135</u>	<u>9,322,365</u>
<u>U.S. Department of Justice</u>				
Drug Enforcement Administration - Direct Programs:				
Marijuana Eradication	16.579	LOA 2008-61	400,000	213,388
Marijuana Eradication	16.579	LOA 2009-64	475,000	79,927
			<u>875,000</u>	<u>293,315</u>
Subtotal Direct Programs			<u>875,000</u>	<u>293,315</u>

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, 2009

Federal Grantor/ Pass-through Grantor/Program Title	Federal CFDA Number	Grant Number	Grant Award	Federal Expenditures
<u>U.S. Department of Justice (Continued)</u>				
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	\$ 38,237
Subtotal Pass-Through Program			<u>90,000</u>	<u>38,237</u>
Total U.S. Department of Justice			<u>965,000</u>	<u>331,552</u>
<u>U.S. Department of Transportation</u>				
Federal Highway Administration -				
Direct Programs:				
Na Ala Hele Trail & Access System	20.219	NRT-NRT 1(011)	758,079	55,272
Na Ala Hele Trail & Access System	20.219	NRT-NRT 1(012)	886,600	886,500
			<u>1,644,679</u>	<u>941,772</u>
Subtotal Direct Programs			<u>1,644,679</u>	<u>941,772</u>
Federal Highway Administration -				
Pass-Through Program From:				
The Department of Transportation, State of Hawaii -				
Ka Iwi Scenic Shoreline	20.205	SOH-DOT STP-072-1(46)	5,159,006	106,126
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	500
Ferry Boat Acquisition & Pier Improvements	20.500	SOH-DOT HI-03-0034-00	7,460,000	28,885
Ferry Commuter Pier Improvements	20.500	SOH-DOT HI-03-0038-00	14,684,170	101,512
Ferry Commuter Pier Improvements	20.500	SOH-DOT HI-03-0044-00	4,800,000	189,183
			<u>27,352,170</u>	<u>320,080</u>
Subtotal Pass-Through Programs			<u>32,511,176</u>	<u>426,206</u>
Total U.S. Department of Transportation			<u>34,155,855</u>	<u>1,367,978</u>
<u>Environmental Protection Agency</u>				
Nonpoint Source Management Program -				
Pass-Through Program From:				
The Department of Health, State of Hawaii -				
Polluted Runoff Control Program	66.460	SOH-DOH: ASO No. 06-054	1,500,000	224,513
Subtotal Pass-Through Program			<u>1,500,000</u>	<u>224,513</u>
Total Environmental Protection Agency			<u>1,500,000</u>	<u>224,513</u>

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, 2009

Federal Grantor/ Pass-through Grantor/Program Title	Federal CFDA Number	Grant Number	Grant Award	Federal Expenditures
<u>Corporation for National & Community Service</u>				
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	\$ -
Hawaii Youth Conservation Corps	94.006	07ACHHI001	629,787	283,779
Hawaii Youth Conservation Corps	94.006	07ACHHI0010001	629,787	344,109
			<u>1,425,332</u>	<u>627,888</u>
Subtotal Pass-Through Programs			<u>1,425,332</u>	<u>627,888</u>
Total Corporation for National & Community Service			<u>1,425,332</u>	<u>627,888</u>
<u>US Department of Homeland Security</u>				
Direct Programs:				
United States Coast Guard -				
Recreational Boating Safety Program, FY06	97.012	16.01.15	1,106,745	536,003
Recreational Boating Safety Program, FY07	97.012	17.01.15	732,298	141,695
Recreational Boating Safety Program, FY08	97.012	18.01.15	870,085	105,482
Recreational Boating Safety Program, FY09	97.012	19.01.15	867,906	243,942
			<u>3,577,034</u>	<u>1,027,122</u>
Federal Emergency Management Agency -				
Community Assistance Program	97.023	EMF-2008-GR-0803	85,100	30,675
Community Assistance Program	97.023	EMF-2009-GR-0903	91,128	53,288
			<u>176,228</u>	<u>83,963</u>
Dam Safety Program, FY07	97.041	EMW-2007-GR-0743	25,379	13,589
Dam Safety Program, FY06	97.041	EMW-2006-ND-0042	25,249	-
2008 National Dam Safety State Grant Assistance	97.041	EMW-2008-GR-0636	25,380	6,001
			<u>76,008</u>	<u>19,590</u>
2009 Cooperating Technical Partners (CTP)	97.045	EMF-2009-GR-0906	140,000	-
Map Modernization Support Program	97.070	EMF-2007-GR-0610	140,000	88,610
Map Modernization Support Program	97.070	EMF-2008-GR-0807	140,000	9,580
			<u>280,000</u>	<u>98,190</u>
Subtotal Direct Programs			<u>4,249,270</u>	<u>1,228,865</u>
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	90,057	-
March 2006 Flood	97.036	SOH-DOD FEMA-1640-DR-HI	1,619,888	126
October 2006 Earthquake	97.036	SOH-DOD FEMA-1664-DR-HI	1,392,206	83,798

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, 2009

Federal Grantor/ Pass-through Grantor/Program Title	Federal CFDA Number	Grant Number	Grant Award	Federal Expenditures
<u>US Department of Homeland Security (Continued)</u>				
December 2007 Storm Disaster	97.036	SOH-DOD FEMA-1743-DR-HI	\$ 415,090	\$ -
December 2008 Storm	97.036	SOH-DOD FEMA-1814-DR-HI	615,541	8,558
			<u>4,132,782</u>	<u>92,482</u>
Office of Domestic Preparedness - Pass-Through Program From:				
The Department of Defense, Office of the Director of Civil Defense, State of Hawaii - Fiscal Year 2005 State Homeland Security Grant				
	97.067	SOH-DOD 2005-GE-T5-0034	303,428	239,507
Subtotal Pass-Through Programs			<u>4,436,210</u>	<u>331,989</u>
Total U.S. Department of Homeland Security			<u>8,685,480</u>	<u>1,560,854</u>
Total Federal Grants			<u>\$168,000,382</u>	<u>\$ 22,582,616</u>

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

PART IV

COMPLIANCE AND INTERNAL CONTROL SECTION

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, 2009, which collectively comprise the Department's basic financial statements and have issued our report thereon dated February 1, 2010. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs, item 09-1, to be a significant deficiency in internal control over financial reporting.

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 the 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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is a material weakness.

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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 09-2.

We noted certain matters that we reported to management of the Department in a separate letter dated February 1, 2010.

The Department's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Department's response and, accordingly, we express no opinion on it.

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
February 1, 2010

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, 2009. 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.

As described in item 09-2 in the accompanying schedule of findings and questioned costs, the Department did not comply with the requirement regarding reporting that is applicable to its Recreational Boating Safety Program. Compliance with such a requirement is necessary, in our opinion, for the Department to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, 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, 2009.

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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency and which we consider to be a material weakness.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 09-2 to be a significant deficiency.

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. The significant deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs under item 09-2, is considered to be a material weakness.

The Department's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Department's response and, accordingly, we express no opinion on it.

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
February 1, 2010

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, 2009

Section I - Summary Of Auditors' Results (continued)

Dollar threshold used to distinguish between
type A and type B programs:

\$ 677,478

Auditee qualified as low-risk auditee?

yes no

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Schedule Of Findings And Questioned Costs
For The Year Ended June 30, 2009

Section II - Financial Statement Findings

Material Weakness

Finding No. 09-1: Expenditures Claimed for Reimbursement Were Overstated

The Division of Boating and Ocean Recreation (DBOR) administers the Recreational Boating Safety (RBS) grant program under the U.S. Department of Homeland Security. The purpose of the program is to allow States to assume a greater share of boating safety education, assistance and enforcement activities and to assist States in developing their recreational boating safety programs. Reimbursable costs under the grant include costs related to qualified law enforcement patrol activities. The Division of Conservation and Resources Enforcement (DOCARE) is responsible for providing the law enforcement activities required under the grant. DOCARE is responsible for the record keeping and reporting of enforcement-related costs allowable under the grant. DBOR is responsible for the documentation of other program costs as well as summarizing all program costs and filing the claims for reimbursement.

Criteria

Federal regulations under 44 CFR 13.20 require that financial management systems of its grantees meet certain standards, including accurate, current and complete disclosure of the financial results of financially assisted activities in accordance with the financial reporting requirements of the grant.

Condition

Internal controls over financial reporting provided for inaccurate disclosure of financial results of financially assisted activities as it allowed for excess costs to be claimed for reimbursement by DBOR for the period October 2008 through March 2009.

Questioned Costs

DBOR reported program costs which were overstated by \$128,136 with a Federal share of \$64,068. The overstated costs included \$120,956 in personnel costs related to law enforcement patrol activities. This was due to a calculation error by DOCARE. DBOR summarized other RBS-related costs subject to reimbursement and costs amounting to \$7,180 were claimed twice.

Cause

DBOR's internal controls over financial reporting allowed for inaccurate financial reporting. Law enforcement personnel costs provided by DOCARE were not checked for accuracy by DBOR which also duplicated other costs claimed.

Effect

Ineffectiveness in internal controls over financial reporting resulted in misstatement of financial results and non-compliance.

Recommendation

As the grantee, DBOR is responsible for the accuracy of financial results reported in its RBS program including those program costs calculated by and provided to them by DOCARE. Reimbursement claims should be reviewed for accuracy prior to filing with the grantor agency. Such a review should include a review of the accuracy of costs reported by DOCARE as well as the documentation of other program costs.

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Schedule Of Findings And Questioned Costs
For The Year Ended June 30, 2009

Section III - Federal Award Findings And Questioned Costs

Material Weakness

Federal Agency - U.S. Department of Homeland Security

CFDA Number and Title - 97.012; Boating Safety Financial Assistance

Award Number and Award Year -

16.01.15 - 10/1/05-9/30/06

17.01.15 - 10/1/06-9/30/07

18.01.15 - 10/1/07-9/30/08

19.01.15 - 10/1/08-9/30/09

Finding No. 09-2: Expenditures Claimed for Reimbursement Were Overstated

Refer to Finding 09-1 in Section II of the "Schedule of Findings And Questioned Costs" regarding the need to improve controls over financial reporting.

State of Hawaii
Department of Land & Natural Resources
Audit Findings - Corrective Action Plan

Auditor / Period: Ohata Chun Yuen LLP / Fiscal Year Ending June 30, 2009

Report Reference: Audit Finding No 90-01

Finding / Comment: Expenditures Claimed for Reimbursement Were Overstated

Responsible DLNR Agency: Division of Boating and Ocean Recreation (DBOR)
Division of Conservation & Resources Enforcement (DOCARE)

Responsible Official / Title: DBOR – Edward Underwood, Administrator (808) 587-1966
DOCARE – Kevin Kong, Acting Administrator (808) 587-0068

Agency Response: As recipient of federal funding, DBOR is responsible for the accuracy of financial results reported under the Recreational Boating Safety (RBS) grant. This includes program costs calculated by and provided by DOCARE. Effective immediately DBOR will review the documentation and costs before submitting a request for reimbursement. Also, DBOR has implemented procedures to ensure that only one information source, the State accounting system, is used to develop reimbursement costs.

DOCARE acknowledges that an error was made in calculating the payroll charges claimed in the period October 1, 2008 to March 31, 2009. The Division is in the process of implementing procedures to ensure accurate recording and reporting of the information necessary for this grant. The Division's Administrator or Deputy Administrator will review all fiscal and statistical reports for accuracy before submitting them to DBOR.

Within the year, DOCARE will be implementing the Enforcement Management Information System (EMIS), which allows for more accurate tracking of expenses related to RBS enforcement activities.

Submitted By:

Edward Underwood, Administrator
Division of Boating and Ocean Recreation

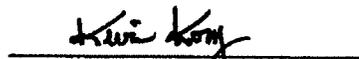


/ S /

3/25/2010

Date

Kevin Kong, Acting Administrator
Division of Conservation and Resources Enforcement



/ S /

3/25/2010

Date

Laura H. Thielen, Chairperson
Board of Land and Natural Resources



/ S /

3/25/10

Date

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Schedule Of Prior Findings And Questioned Costs
For The Year Ended June 30, 2009

Finding

Status

None