DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

JUNE 30, 2011

PART I

INTRODUCTORY SECTION

Ohata Chun Yuen LLP
CERTIFIED PUBLIC ACCOUNTANTS

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March 23, 2012

Board of Land and Natural Resources
State of Hawaii

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, 2011. Our audit was performed in accordance with the terms of our contract with the State of Hawaii.

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.

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 complied with the laws and regulations that may have a material effect on the financial statements.

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; and *Government Auditing Standards*, issued by the Comptroller General of the United States. The scope of our audit included an examination of the transactions and accounting records of the Department for the fiscal year ended June 30, 2011.

ORGANIZATION OF THE REPORT

This report is organized into four 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.

* * * * *

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 Yum LLP

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PART II

FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

Board of Land and Natural Resources
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, 2011, 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.

As discussed in Note 1, the financial statements of the Department are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Hawaii that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2011, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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, 2011, 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 March 23, 2012, 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.

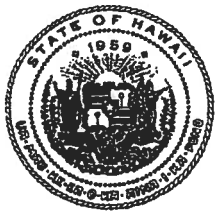
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 6 through 15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Department's financial statements as a whole. 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 financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements 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 do not express an opinion or provide any assurance on them.

Ohata Chun Yuen LLP

Honolulu, Hawaii
March 23, 2012

NEIL ABERCROMBIE
GOVERNOR OF HAWAII



STATE OF HAWAII
DEPARTMENT OF LAND AND NATURAL RESOURCES

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WILLIAM J. AILA, JR.
CHAIRPERSON
BOARD OF LAND AND NATURAL RESOURCES
COMMISSION ON WATER RESOURCE MANAGEMENT

GUY H. KAULUKUKUI
FIRST DEPUTY

WILLIAM M. TAM
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, 2011. 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 2011

- The assets of the DLNR exceeded its liabilities at June 30, 2011, by $491.0 million. Of this amount, $31.2 million is unrestricted and may be used to meet the DLNR's ongoing obligations.
- As of the close of the current fiscal year, the DLNR's governmental funds reported a combined ending fund balance of $136.6 million.
- During the year, the DLNR's governmental funds total revenue was $124.4 million and expenses totaled $121.4 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

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

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

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

- General Fund - The general fund is the operating fund of the DLNR. It is used to account for all financial activities except those required to be accounted for in another fund. The annual operating budget as authorized by the State Legislature provides the basic framework within which the resources and obligations of the general fund are accounted.

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

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

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

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

Notes to Financial Statements

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

Other information

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

DEPARTMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, changes in net assets may serve over time as a useful indicator of the DLNR's financial position. As of June 30, 2011, the DLNR's total net assets were approximately $491 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)

	2011	2010	Increase (Decrease)
Cash and short term investments	$173.3	$ 176.3	$ (3.0)
Receivables	4.5	4.9	(0.4)
Capital assets	367.3	345.3	22.0
Total assets	$ 545.1	$ 526.5	$ 18.6
Current liabilities	45.6	43.5	2.1
Long-term liabilities	8.5	9.1	(0.6)
Total liabilities	54.1	52.6	1.5
Invested in capital assets, net of related debt	362.5	340.6	21.9
Restricted	97.2	0.0	97.2
Unrestricted	31.3	133.3	(102.0)
Total net assets	491.0	473.9	17.1
Total liabilities and net assets	$ 545.1	$ 526.5	$ 18.6

DLNR's net assets increased by $17.1 million for the fiscal year ended June 30, 2011 due to $22.0 million increase of capital assets. The increase in capital assets included $10.2 million of land and easement acquisitions with federal grant funds and contributed resources. Construction work in progress also increased by $10.4 million.

The increase in restricted assets and the related decrease of unrestricted assets are due to compliance with Governmental Accounting Standards Board (GASB) Statement No. 54, effective for governmental fund financial statements issued for the fiscal year ended June 30, 2011, which established criteria for classifying fund balances into specifically defined classifications for governmental fund types.

Analysis of the DLNR's Operations: The following table provides a summary of the DLNR's operations for the year ended June 30, 2011:

Changes in Net Assets
(in millions)

	2011	2010	Increase (Decrease)
Program revenue			
Interest, rents, taxes and fees	$ 47.7	$ 44.2	$ 3.5
Operating grants and contributions	46.4	25.5	20.9
State allotted appropriations, net of lapses	28.3	31.9	(3.6)
Total revenue	122.4	101.6	20.8
Total expenses	103.5	100.1	3.4
Excess before transfers	18.9	1.5	17.4
Transfers	(1.8)	(2.5)	0.7
Change in net assets	17.1	(1.0)	18.1
Net assets – beginning	473.9	474.9	(1.0)
Net assets - end of year	$ 491.0	$ 473.9	$ 17.1

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. The increase of $20.9 in operating grants and contributions is due to receipt of a $8.5 million settlement from U.S. Department of Defense for coral reef damages at Port Royal as well as federal funding and donated resources of $7.9 million for the Kealakekua easement acquisition, $1.2 million for the Lapakahi land acquisition, and $2.7 million passed through to Maui Coastal Land Trust for the Nuu Makai purchase.

FINANCIAL ANALYSIS OF THE DEPARTMENT'S GOVERNMENTAL FUNDS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. As noted earlier, the DLNR uses fund accounting to ensure and demonstrate compliance with finance and related legal requirements.

Comparison of Balance Sheets
(in millions)

	Assets			Liabilities			Fund Balances		
	2011	2010	Change	2011	2010	Change	2011	2010	Change
General Fund	$ 3.5	$ 6.0	$ (2.5)	$ 2.5	$ 1.9	$ 0.6	$ 1.0	$ 4.0	$ (3.0)
Federal Grant Fund	12.2	10.8	1.4	17.5	17.2	0.3	(5.3)	(6.4)	1.1
Water and Land Development Fund	1.9	1.7	0.2	6.2	6.2	0.0	(4.3)	(4.5)	0.2
Ocean Based Recreation Fund	6.3	3.5	2.8	4.6	4.7	(0.1)	1.7	(1.2)	2.9
Capital Projects Fund	90.4	100.3	(9.9)	3.6	3.4	0.2	86.8	97.0	(10.2)
Other Funds	64.7	59.8	4.9	8.0	7.4	0.6	56.7	52.4	4.3
Total	$ 179.0	$ 182.1	$ (3.1)	$ 42.4	$ 40.8	$ 1.6	$ 136.6	$ 141.3	$ (4.7)

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

	Revenues			Expenditures			Transfers			Lapsed Appropriations			Net Changes in Fund Balances		
	2011	2010	Change	2011	2010	Change	2011	2010	Change	2011	2010	Change	2011	2010	Change
General Fund	$23.4	$26.7	-$3.3	$22.9	$23.9	-$1.0	$0.0	$0.0	$0.0	-$3.5	-$5.2	$1.7	-$3.0	-$2.4	-$0.6
Federal Grant Fund	27.8	19.1	8.7	26.7	20.6	6.1	0.0	0.0	0.0			0.0	$1.1	-1.5	2.6
Water and Land Development	0.0	0.1	-0.1	0.1	0.0	0.1	0.2	0.4	-0.2			0.0	$0.1	0.5	-0.4
Ocean-Based Recreation Fund	13.5	11.6	1.9	9.3	9.3	0.0	-1.3	-1.0	-0.3			0.0	$2.9	1.3	1.6
Capital Projects Fund	14.9	15.8	-0.9	24.1	20.4	3.7	1.5	0.8	0.7	-2.3	-3.7	1.4	-$10.0	-7.5	-2.5
Other Funds	44.8	34.5	10.3	38.3	38.5	-0.2	-2.2	-0.6	-1.6			0.0	$4.3	-4.6	8.9
Total	$124.4	$107.8	$16.6	$121.4	$112.7	$8.7	-$1.8	-$0.4	-$1.4	-$5.8	-$8.9	$3.1	-$4.6	-$14.2	$9.6

The General Fund is the primary operating fund of the DLNR. At the end of the current fiscal year, there was a $1 million encumbrance balance that remained after the current year's net loss in the General Fund and reflected as assigned fund balance in accordance with GASB Statement No. 54.

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 $26.7 million from more than 200 hundred individual grants.

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 10 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 $13.5 million and expenditures were approximately $9.3 million.

The Capital Projects Fund received approximately $14.8 million of State allotted appropriations and federal grants for capital projects. Capital projects funds are used to account for financial resources to acquire or construct major capital facilities.

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.

Summary of Statement of Fiduciary Assets
(In millions)

	2011	2010	Increase (Decrease)
Cash and short term investments	$ 16.5	$ 13.6	$ 2.9
Receivables - General leases and licenses	0.6	0.6	0.0
Total assets	17.1	14.2	2.9
Due to State Treasury	0.3	0.3	0.0
Due to other State agencies	0.9	0.8	0.1
Total liabilities	1.2	1.1	0.1
Held in trust for Individuals and organizations	15.9	13.1	2.8
Total net assets	$ 15.9	$ 13.1	$ 2.8

BUDGETARY HIGHLIGHTS

General Fund - Actual expenditures for general funded programs were $2.9 million less than the budgeted expenditures due to budget restrictions and vacancy savings.

Federal Funds – In fiscal year 2011, the DLNR requested and received approval from the Governor to increase the ceilings on its federal grant operating appropriations by approximately $5 million for new and additional federal grants. A new $1.5 million grant was approved by the Forest Service for the Kainalu Ranch easement acquisition under the Forest Legacy Program. Forest Service also approved an additional $1 million for invasive species and forest pest control. The Division of Conservation and Resources Enforcement received over $1.6 million of additional federal funding for various grants and the Division of Aquatic Resources received over half a million of additional federal funding. $20.2 million of federal funds were carried over from FY09 and FY10 to FY11 for our aquatic, forestry and wildlife, and state parks 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, private landowner assistance programs, coral management, hunter education, and marijuana eradication programs.

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

Water and Land Development Fund –This fund contains a revolving fund used to receive and pay for accumulated leave of capital projects funded staff. Revenue is recognized from 1) accumulated vacation transfers for new staff and 2) interest income earned on the accumulated fund balance. Interest income for the year amounted to $18,884 and gain from auction rate securities valuation adjustment amounted to $37,399. This fund's revenue 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 $2.2 million less than budgeted due to economic constraints affecting commercial and cruise ship operators. 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. Expenditures were further reduced by furloughs and hiring restrictions implemented through most of fiscal year 2011.

CAPITAL ASSETS AND DEBT ADMINISTRATION

At the end of fiscal year 2011, the DLNR had invested approximately $367.3 million (net of accumulated depreciation) in a broad range of capital assets. The $20.6 million increase in non-depreciable assets includes $2.4 million for the Lapakahi land acquisition, $7.8 for the Kealakekua easement acquisition, and $10.4 million of construction-in-progress projects. The $6.6 million increase in buildings and depreciable land improvements includes $2.5 million of boat harbor improvements and new comfort stations and $3.7 million of park improvements.

See Note 5 to the financial statements for a description of capital assets activities for the fiscal year ended June 30, 2011.

Capital Assets
(In millions)

	2011	2010	Increase (Decrease)
Capital assets not being depreciated			
Land	$ 163.9	$ 161.5	$ 2.4
Land improvements	11.6	3.8	7.8
Construction in progress	135.9	125.5	10.4
Total capital assets not being depreciated	311.4	290.8	20.6
Capital assets being depreciated			
Buildings	55.6	52.4	3.2
Land and improvements	86.3	82.9	3.4
Furniture and equipment	12.7	12.2	0.5
Vehicles	16.3	15.9	0.4
Total capital assets being depreciated	170.9	163.4	7.5
Less total accumulated depreciation	(115.0)	(108.9)	(6.1)
Total capital assets being depreciated, net	55.9	54.5	1.4
Total capital assets, net	$ 367.3	$ 345.3	$ 22.0

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

The accrued vacation balance as of June 30, 2011 was $8,157,161, an increase of $173,753 from fiscal year 2010. Beginning with FY06, leave amounts were increased to include certain fringe benefits. For FY11, the value attributed to fringe benefits was $579,677.

The outstanding balance of the State of Hawaii general obligation bonds allocated to the DLNR remained approximately $4.7 million as of June 30, 2011 because allocation by Department of Budget and Finance of DLNR's share of debt payments and related interest expense was not received until FY12. 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, 2011.

Long Term Obligations
(In millions)

	2011	2010	Increase (Decrease)
Accrued vacation	$ 8.2	$ 8.0	$ 0.2
General obligation bonds	4.7	4.7	0.0
Total long term debt	$ 12.9	$ 12.7	$ 0.2

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, 2011

ASSETS

Cash and short-term cash investments held in State Treasury	$173,365,748
Receivables:	
Federal grants	4,438,531
General leases and licenses, net of allowance for losses of $1,146,042	58,072
Capital assets:	
Land, improvements, construction-in-progress and other capital assets, net of depreciation	367,254,432
Total assets	$545,116,783

LIABILITIES

Vouchers and contracts payable	$ 10,900,226
Accrued wages and employee benefits payable	2,532,649
Due to State Treasury	13,576,934
Due to other State Agencies	8,681,798
Deferred revenue	4,874,931
General obligation bonds:	
Due within one year	1,522,000
Due in more than one year	3,196,799
Note payable to State Treasury	648,103
Accrued vacation:	
Due within one year	2,848,097
Due in more than one year	5,309,064
Security deposits	39,600
Total liabilities	54,130,201

Commitments and contingencies

NET ASSETS

Invested in capital assets, net of related debt	362,535,633
Restricted	97,212,987
Unrestricted	31,237,962
Total net assets	490,986,582
Total liabilities and net assets	$545,116,783

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, 2011

Functions/Programs	Expenses	Program Revenue: Interest, Rents and Fees	Program Revenue: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Departmental activities:				
Economic development	$ 11,657,806	$ 457,593	$ 7,558,931	$ (3,641,282)
Environmental protection	40,900,554	10,983,683	19,093,721	(10,823,150)
Culture and recreation	28,083,584	18,220,933	6,314,472	(3,548,179)
Public safety	2,340,667	70,271	392,822	(1,877,574)
Individual rights	3,692,137	4,706,203	-	1,014,066
Government-wide support	10,863,152	13,304,570	13,035,364	15,476,782
Capital outlays	6,010,253	-	-	(6,010,253)
Total departmental activities	$103,548,153	$47,743,253	$46,395,310	(9,409,590)

General revenues:	
Appropriations, net of lapsed appropriations	28,319,391
Total general revenues before transfers	28,319,391
Transfers, net	(1,855,865)
Total general revenues and transfers	26,463,526
Change in net assets	17,053,936
Net assets at July 1, 2010	473,932,646
Net assets at June 30, 2011	$490,986,582

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, 2011

	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	$ 3,517,348	$ 9,294,014	$ 1,932,703	$ 5,692,108	$88,851,075	$64,078,500	$173,365,748
Receivables:							
Federal grants	-	2,934,016	-	-	1,504,515	-	4,438,531
General leases and licenses, net of allowance of $1,146,042	-	-	-	-	-	58,072	58,072
Due from Federal Grant Fund	-	-	-	561,395	-	560,075	1,121,470
Total assets	$ 3,517,348	$12,228,030	$ 1,932,703	$ 6,253,503	$90,355,590	$64,696,647	$178,983,821
LIABILITIES							
Vouchers and contracts payable	$ 1,541,756	$ 2,968,013	$ 4,293	$ 415,048	$ 2,792,450	$ 3,178,666	$ 10,900,226
Accrued wages and employee benefits payable	989,569	158,225	-	332,524	116,735	935,596	2,532,649
Due to State Treasury	-	12,389,796	-	1,187,138	-	-	13,576,934
Due to other State Agencies	-	-	6,180,795	2,285,838	-	215,165	8,681,798
Due to Special Revenue Funds	-	1,121,470	-	-	-	-	1,121,470
Deferred revenue	-	863,241	-	389,932	-	3,621,758	4,874,931
Note payable to State Treasury	-	-	-	-	648,103	-	648,103
Security deposits	-	-	-	-	-	39,600	39,600
Total liabilities	2,531,325	17,500,745	6,185,088	4,610,480	3,557,288	7,990,785	42,375,711
Commitments and contingencies							
FUND BALANCES							
Restricted	-	-	-	-	86,798,302	10,414,685	97,212,987
Committed	-	-	-	1,643,023	-	46,291,177	47,934,200
Assigned	986,023	-	-	-	-	-	986,023
Unassigned	-	(5,272,715)	(4,252,385)	-	-	-	(9,525,100)
Total fund balances	986,023	(5,272,715)	(4,252,385)	1,643,023	86,798,302	56,705,862	136,608,110
Total liabilities and fund balances	$ 3,517,348	$12,228,030	$ 1,932,703	$ 6,253,503	$90,355,590	$64,696,647	$178,983,821

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, 2011

	General Fund	Federal Grant Fund	Water and Land Development	Ocean-Based Recreation Fund	Capital Projects Fund	Other Funds	Total
Revenues							
Appropriations	$23,354,191	$ -	$ -	$ -	$ 10,798,520	$ -	$ 34,152,711
Intergovernmental revenues	-	27,533,982	-	-	3,006,244	81,075	30,621,301
General leases, licenses and permits	-	-	-	11,767,348	-	16,353,377	28,120,725
Taxes, fuel and others	-	-	-	1,665,639	-	15,638,351	17,303,990
Net investment gain	-	186,444	56,284	84,035	54,728	1,937,048	2,318,539
Other	-	99,307	-	27,210	1,000,184	10,765,307	11,892,008
Total revenues	23,354,191	27,819,733	56,284	13,544,232	14,859,676	44,775,158	124,409,274
Expenditures							
Current:							
Economic development	1,789,411	7,456,868	76,662	-	-	2,705,666	12,028,607
Environmental protection	13,704,304	14,007,210	-	-	-	13,652,075	41,363,589
Culture and recreation	7,138,995	4,589,597	-	9,157,535	-	6,216,715	27,102,842
Public safety	260,937	601,772	-	-	-	1,329,734	2,192,443
Individual rights	-	-	-	-	-	3,591,015	3,591,015
Government-wide support	-	17,116	-	-	-	10,800,848	10,817,964
Capital improvement projects	-	-	-	-	24,132,055	-	24,132,055
Debt service:							
Interest on long-term debt	-	-	-	194,415	-	-	194,415
Total expenditures	22,893,647	26,672,563	76,662	9,351,950	24,132,055	38,296,053	121,422,930
Excess of revenues over (under) expenditures	460,544	1,147,170	(20,378)	4,192,282	(9,272,379)	6,479,105	2,986,344
Other financing sources (uses)							
Operating transfers in	-	97,863	1,994,281	12,594,963	3,254,064	39,744,991	57,686,162
Operating transfers out	-	(97,863)	(1,767,100)	(13,930,577)	(1,800,000)	(41,946,487)	(59,542,027)
Total other financing sources (uses)	-	-	227,181	(1,335,614)	1,454,064	(2,201,496)	(1,855,865)
Excess of revenues and other financing sources over (under) expenditures and other financing uses	460,544	1,147,170	206,803	2,856,668	(7,818,315)	4,277,609	1,130,479
Lapsed appropriations	3,488,528	-	-	-	2,344,792	-	5,833,320
Net change in fund balances	(3,027,984)	1,147,170	206,803	2,856,668	(10,163,107)	4,277,609	(4,702,841)
Fund balances at July 1, 2010	4,014,007	(6,419,885)	(4,459,188)	(1,213,645)	96,961,409	52,428,253	141,310,951
Fund balances at June 30, 2011	$ 986,023	$ (5,272,715)	$ (4,252,385)	$ 1,643,023	$ 86,798,302	$56,705,862	$136,608,110

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, 2011

	Agency Funds
ASSETS	
Cash and short-term cash investments held in State Treasury	$16,524,874
Receivables:	
General leases and licenses, net of allowance for losses of $703,354	624,056
Total assets	17,148,930
LIABILITIES	
Due to State Treasury	321,987
Due to other State agencies	869,374
Total liabilities	1,191,361
NET ASSETS	
Held in trust for:	
Individuals and organizations	15,957,569
Total net assets	$15,957,569

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, 2011

	Total Governmental Funds	Long-Term Assets, Liabilities	Reclassifications and Eliminations	Statement of Net Assets
ASSETS				
Cash and short-term cash investments held in State Treasury	$173,365,748	$ -	$ -	$173,365,748
Receivables:				
Federal grants	4,438,531	-	-	4,438,531
General leases and licenses, net of allowance for losses	58,072	-	-	58,072
Due from Federal Grant Fund	1,121,470	-	(1,121,470)	-
Capital Assets:				
Land, improvements, construction-in-progress and other capital assets, net of depreciation	-	367,254,432 (1)	-	367,254,432
Total assets	$178,983,821	$367,254,432	$ (1,121,470)	$545,116,783
LIABILITIES				
Vouchers and contracts payable	$ 10,900,226	$ -	$ -	$ 10,900,226
Accrued wages and employee benefits payable	2,532,649	-	-	2,532,649
Due to State Treasury	13,576,934	-	-	13,576,934
Due to other State agencies	8,681,798	-	-	8,681,798
Due to Special Revenue Funds	1,121,470	-	(1,121,470)	-
Deferred revenue	4,874,931	-	-	4,874,931
Bonds payable:				
Due within one year	-	1,522,000 (2)	-	1,522,000
Due in more than one year	-	3,196,799 (2)	-	3,196,799
Note payable to State Treasury	648,103	-	-	648,103
Accrued vacation:				
Due within one year	-	2,848,097 (3)	-	2,848,097
Due in more than one year	-	5,309,064 (3)	-	5,309,064
Security deposits	39,600	-	-	39,600
Total liabilities	42,375,711	12,875,960	(1,121,470)	54,130,201
FUND BALANCES/NET ASSETS				
Invested in capital assets, net of related debt	-	345,323,902 (1) 28,097,886 (1) (6,167,356) (1) (4,718,799) (2)	-	362,535,633
Reserved/Restricted for:				
Restricted	97,212,987	-	-	97,212,987
Committed	47,934,200	-	(47,934,200) (4)	-
Assigned	986,023	-	(986,023) (4)	-
Unassigned	(9,525,100)	-	9,525,100 (4)	-
Unrestricted	-	(8,157,161)(3)	39,395,123 (4)	31,237,962
Total fund balances/net assets	136,608,110	354,378,472	-	490,986,582
Total liabilities and fund balances/net assets	$178,983,821	$367,254,432	$ (1,121,470)	$545,116,783

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, 2011

Total fund balances - governmental funds		$136,608,110
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	$ 86,293,550	
Other capital assets	84,597,872	
Accumulated depreciation	(115,009,166)	
Land	163,837,878	
Other capital assets, not depreciated	11,666,436	
Construction-in-progress	135,867,862	
Total capital assets		367,254,432
(2) Bonds payable are not reported in the governmental funds.		(4,718,799)
(3) Accrued vacation is not reported in the governmental funds.		(8,157,161)
(4) Reclassify committed, assigned and unassigned fund balances/net assets to unrestricted fund balances/net assets.		-
Total net assets		$490,986,582

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, 2011

	Total Governmental Funds	Long-Term Assets, Liabilities	Reclassifications and Eliminations	Statement of Activities
Revenues				
Appropriations	$ 34,152,711	$ -	$(5,833,320) (3)	$ 28,319,391
Intergovernmental revenues	30,621,301	-	-	30,621,301
General leases, licenses and permits	28,120,725	-	-	28,120,725
Taxes, fuel and others	17,303,990	-	-	17,303,990
Net investment gain	2,318,539	-	-	2,318,539
Other	11,892,008	3,882,000 (1)	-	15,774,008
Total revenues	124,409,274	3,882,000	(5,833,320)	122,457,954
Expenditures				
Economic development	12,028,607	(701,075)(1)	-	11,657,806
		316,011 (1)		
		14,263 (2)		
Environmental protection	41,363,589	(3,022,944)(1)	-	40,900,554
		2,544,684 (1)		
		15,225 (2)		
Culture and recreation	27,102,842	(2,315,461)(1)	194,415 (4)	28,083,584
		3,040,188 (1)		
		61,600 (2)		
Public safety	2,192,443	(216) (1)	-	2,340,667
		135,593 (1)		
		12,847 (2)		
Individual rights	3,591,015	(3,300)(1)	-	3,692,137
		96,042 (1)		
		8,380 (2)		
Government-wide support	10,817,964	(51,088)(1)	-	10,863,152
		34,838 (1)		
		61,438 (2)		
Capital outlays	24,132,055	(18,194,302)(1)	-	6,010,253
		72,500 (1)		
Interest on long-term debt	194,415	-	(194,415) (4)	-
Total expenditures	121,422,930	(17,874,777)	-	103,548,153
	2,986,344	21,756,777	(5,833,320)	18,909,801
Other financing uses and lapsed appropriations:				
Net operating transfers	(1,855,865)	-	-	(1,855,865)
Lapsed appropriations	(5,833,320)	-	5,833,320 (3)	-
Change in fund balances/net assets	$ (4,702,841)	$ 21,756,777	$ -	$ 17,053,936

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, 2011

Change in fund balances - governmental funds		$ (4,702,841)
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	$28,170,386	
Depreciation expense	(6,167,356)	
Completed construction projects, less than capitalization threshold	(72,500)	
Excess of capital outlays over depreciation expense		21,930,530
(2) The increase in accrued vacation is not reported in governmental funds.		(173,753)
(3) Lapsed appropriations are net against appropriations in the statement of activities.		-
(4) Reclassify interest on long-term debt to function.		-
Change in net assets		$17,053,936

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, 2011

	Budgeted Amounts		Actual	Variance with Final Budget - Positive
	Original	Final	(Budgetary Basis)	(Negative)
Appropriations	$23,377,673	$23,354,191	$23,354,191	$ -
Expenditures:				
Economic development	1,136,229	1,136,229	912,069	224,160
Environmental protection	15,962,443	15,939,961	13,414,712	2,525,249
Culture and recreation	6,279,001	6,278,001	6,111,370	166,631
Total expenditures	23,377,673	23,354,191	20,438,151	2,916,040
Excess of revenues over expenditures	$ -	$ -	$ 2,916,040	$ 2,916,040

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, 2011

	Budgeted Amounts		Actual	Variance with Final Budget - Positive
	Original	Final	(Budgetary Basis)	(Negative)
Federal Grant Fund				
Revenues	$16,794,742	$44,423,889	$27,819,734	$(16,604,155)
Expenditures:				
Economic development	1,086,501	9,344,581	7,061,603	2,282,978
Environmental protection	9,776,731	26,316,226	14,452,325	11,863,901
Culture and recreation	5,589,495	6,797,583	5,558,482	1,239,101
Public safety	266,037	1,889,521	720,711	1,168,810
Government-wide support	75,978	75,978	17,116	58,862
Total expenditures	16,794,742	44,423,889	27,810,237	16,613,652
Excess of revenues over expenditures	$ -	$ -	$ 9,497	$ 9,497

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, 2011

	Budgeted Amounts		Actual	Variance with Final Budget - Positive
	Original	Final	(Budgetary Basis)	(Negative)
Water and Land Development Fund				
Revenues	$ 324,276	$ 324,276	$ 56,283	$ (267,993)
Expenditures:				
Economic development	324,276	324,276	263,458	60,818
Excess of expenditures over revenues	$ -	$ -	$ (207,175)	$ (207,175)
Ocean-Based Recreation Fund				
Revenues	$16,231,150	$15,781,150	$13,544,231	$(2,236,919)
Expenditures:				
Culture and recreation	16,231,150	15,781,150	9,497,030	6,284,120
Excess of revenues over expenditures	$ -	$ -	$ 4,047,201	$ 4,047,201

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The accompanying financial statements present the financial position of the DLNR and the various funds and fund types and the changes in financial position of the DLNR and the various funds and fund types. The financial statements are presented as of June 30, 2011, and for the year then ended.

The following is a summary of significant accounting policies.

Reporting Entity

The DLNR is part of the executive branch of the State. The DLNR's financial statements are intended to present the financial position and changes in financial position of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the DLNR. The State Comptroller maintains the central accounts for all State funds and publishes financial statements for the State annually which includes the DLNR's assets, liabilities, net assets and financial activities.

Departmental and Governmental Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to customers who purchase, use or directly benefit from goods or services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Appropriations and other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

Governmental Fund Financial Statements - The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the DLNR considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. The DLNR has no principal revenue sources which are considered susceptible to accrual.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Exceptions include employees' vested annual leave which is recorded as an expenditure when utilized. The amount of accumulated annual leave unpaid at June 30, 2011, has been reported only in the departmental financial statements.

Fund Accounting

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

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

General Fund - The general fund is used to account for all financial activities except those required to be accounted for in another fund. The annual operating budget as authorized by the State Legislature provides the basic framework within which the resources and obligations of the general fund are accounted for.

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

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

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

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

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

Capital Projects Fund - The capital projects fund is used to account for financial resources used for the acquisition, construction, or improvement of major capital facilities. These resources are derived from State appropriations.

Fiduciary Fund

The DLNR presents as a fiduciary fund, assets held by the DLNR in a trustee or agent capacity for other State departments, individuals and organizations.

Appropriations

An authorization granted by the State Legislature permitting a State agency, within established fiscal and budgetary controls, to incur obligations and to make expenditures. Appropriations are allotted quarterly. The allotted appropriations lapse if not expended by or encumbered at the end of the fiscal year, except for allotted appropriations related to capital projects.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the governmental fund types. Encumbrances outstanding at fiscal year-end 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 funds balance sheet within cash and short-term cash investments. Those funds are pooled with funds from other State agencies and departments and deposited in approved financial institutions by the State Director of Finance. Deposits not covered by federal deposit insurance are fully collateralized by government securities held in the name of the State by third-party custodians. Interest income from this cash pool is allocated to the various departments and agencies based upon their average cash balance for the period.

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

Accumulated Vacation and Sick Leave

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

Beginning July 1, 2004, eligible employees are credited with sick leave at a rate of one and three-quarter days per month. Unused sick leave may be accumulated without limit but can be taken only in the event of illness or other incapacitation and is not convertible to pay upon termination of employment. Accordingly, accumulated sick leave is not included in the DLNR's statement of net assets or governmental fund balance sheet. However, an employee who retires or leaves government service in good standing with sixty days or more in unused sick leave is entitled to additional service credit in the Employee's Retirement System of the State of Hawaii (ERS). Accumulated sick leave as of June 30, 2011 was $21,102,619.

Intrafund and Interfund Transactions

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

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

Inventory

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

Capital Assets

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

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

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

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

Grants

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

Use of Estimates

In preparing financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Governmental Funds Balances

Effective July 1, 2010, the DLNR implemented GASB Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions.* GASB 54 provides clearer fund balance classifications and clarifies the existing governmental fund type definitions. The new hierarchical fund balance classification structure is based primarily on the extent to which a government is bound to follow constraints on how resources can be spent. Classifications include:

Nonspendable - Balances that are not in a spendable form (such as inventory) or are required to be maintained intact.

Restricted - Balances that are restricted for specific purposes by external parties such as creditors, grantors or other governments.

Committed - Balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the state legislature.

Assigned - Balances that are constrained by management to be used for specific purposes, but are neither restricted nor committed.

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

2. BUDGETING AND BUDGETARY CONTROL

The DLNR's annual budget is prepared on the cash basis utilizing encumbrance accounting. Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated throughout the fiscal year. Amounts reflected by the DLNR as budgeted revenues are those estimates as compiled by the State Director of Finance. Budgeted expenditures for the DLNR's general fund are provided to the Department of Budget and Finance, State of Hawaii, for accumulation with budgeted amounts of the other State agencies and included in the Governor's executive budget that is subject to legislative approval.

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

For purposes of budgeting, the DLNR's budgetary fund structure and accounting principles differ from those utilized to present the financial statements in conformity with accounting principles generally accepted in the United States of America. Since the budgetary basis differs from accounting principles generally accepted in the United States of America, budget and actual amounts in the statements of revenues and expenditures - budget and actual, are presented on the budgetary basis. A reconciliation of the general and major special revenue funds' revenues in excess of expenditures on a budgetary basis for the year ended June 30, 2011, 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 $920,298 and $461,122 in the general and major special revenue funds, respectively, as of June 30, 2011, are to be funded with monies budgeted for fiscal 2012. In addition, at June 30, 2011, the DLNR accrued expenditures of $110,567 and $329,768 in the general and major special revenue funds, respectively, for certain goods and services received through June 30, 2011, which the DLNR will fund with monies budgeted for fiscal 2012. 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, 2011 in accordance with accounting principles generally accepted in the United States of America.

The DLNR accrued certain salaries and wages as of June 30, 2010 and certain goods and services received through June 30, 2010, which the DLNR funded with monies budgeted for fiscal 2011. Accordingly, these amounts are included in the statements of revenues and expenditures - budget and actual, for the year ended June 30, 2011. These salaries, wages, goods and services aggregated $982,830 and $904,418 in the general and major special revenue funds, respectively.

The following schedule reconciles the general and major special revenue funds' budgetary amounts to the amounts presented in accordance with accounting principles generally accepted in the United States of America (GAAP basis) for the fiscal year ended June 30, 2011.

		Major Special Revenue Funds		
	General Fund	Federal Grant Fund	Water and Land Development Fund	Ocean-Based Recreation Fund
Excess of revenues over (under) expenditures - actual on budgetary basis	$ 2,916,040	$ 9,497	$(207,175)	$4,047,201
Current year's appropriations included in reserved for encumbrances at June 30, 2011	-	5,757,497	186,592	984,212
Expenditures for liquidation of prior years' encumbrances	(2,407,461)	(5,210,941)	(131)	(361,206)
Fiscal 2010 salaries and wages and other expenditures funded by fiscal 2011 budget	982,830	811,694	355	92,369
Fiscal 2011 salaries and wages funded by fiscal 2012 budget under Section 78-13 HRS	(920,298)	(149,899)	-	(311,223)
Fiscal 2011 expenditures funded by fiscal 2012 budget	(110,567)	(70,678)	(19)	(259,071)
Excess of revenues over (under) expenditures - GAAP basis	$ 460,544	$ 1,147,170	$(20,378)	$4,192,282

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.

At June 30, 2011, 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 an increase in fair value related to its investments in auction rate securities. The change in fair value for DLNR amounts to approximately $1.7 million, which is recorded with interest income in the accompanying financial statements and reflected as net investment gain.

As of June 30, 2011, the carrying amount, which approximates the bank balance of the DLNR's cash and short-term cash investments and adjusted for the increase in fair value, was $173,365,748 for its governmental funds and $16,524,874 for its fiduciary funds.

4. RECEIVABLES

At June 30, 2011, receivables for general leases and licenses for governmental funds consisted of the following:

Rents, fees and licenses	$ 1,204,114
Less allowance for doubtful accounts	(1,146,042)
	$ 58,072

The Department has installment agreements with certain lessees for accounts receivable of the trust and agency fund which aggregated $287,354 at June 30, 2011. These agreements provide for interest rates from 0% to 9.75% and payment terms from 1 to 30 years.

At June 30, 2011, receivables for general leases and licenses for fiduciary funds consisted of the following:

Rents, fees and licenses	$1,327,410
Less allowance for doubtful accounts	(703,354)
	$ 624,056

5. CAPITAL ASSETS

The changes in capital assets were as follows:

	Beginning Balance July 1, 2010	Additions, Adjustments and Transfers	Disposals, Adjustments and Transfers	Ending Balance June 30, 2011
Capital assets, not being depreciated -				
Land	$161,487,878	$ 2,350,000	$ -	$163,837,878
Land improvements	3,784,846	7,850,000	-	11,634,846
Construction-in-progress	125,450,067	15,844,302	(5,426,507)	135,867,862
Other assets	31,590	-	-	31,590
Total capital assets, not being depreciated	290,754,381	26,044,302	(5,426,507)	311,372,176
Capital assets, being depreciated -				
Buildings	52,388,334	1,541,074	1,635,359	55,564,767
Land improvements	82,940,272	(365,370)	3,718,648	86,293,550
Furniture and equipment	12,168,468	561,719	6,955	12,737,142
Motor vehicles	15,973,545	388,661	(66,243)	16,295,963
Total capital assets, being depreciated	163,470,619	2,126,084	5,294,719	170,891,422
Less: accumulated depreciation for -				
Buildings	(24,386,219)	(1,391,655)	-	(25,777,874)
Land improvements	(61,717,776)	(2,826,490)	-	(64,544,266)
Furniture and equipment	(9,209,542)	(869,470)	13,843	(10,065,169)
Motor vehicles	(13,587,561)	(1,079,741)	45,445	(14,621,857)
Total accumulated depreciation	(108,901,098)	(6,167,356)	59,288	(115,009,166)
Total capital assets, being depreciated, net	54,569,521	(4,041,272)	5,354,007	55,882,256
Capital assets, net	$345,323,902	$22,003,030	$ (72,500)	$367,254,432

Changes to capital assets consisted of the following:

Additions:	
Capital outlays and equipment purchases	$28,170,386
Disposals:	
Disposed capital assets, at cost	$ 59,288
Accumulated depreciation of disposed capital assets	(59,288)
Loss on disposal of capital assets	$ -
Adjustments:	
Completed construction projects, less than capitalization threshold	$ (72,500)

Depreciation expense for the year ended June 30, 2011, was charged to functions of the DLNR as follows:

Economic development	$ 316,011
Environmental protection	2,544,684
Culture and recreation	3,040,188
Public safety	135,593
Individual rights	96,042
Government-wide support	34,838
	$6,167,356

6. LONG-TERM OBLIGATIONS

The changes in long-term obligations were as follows:

	Accrued Vacation	General Obligation Bonds
Balance at July 1, 2010	$7,983,408	$4,718,799
Net increase in accrued vacation	173,753	-
Balance at June 30, 2011	$8,157,161	$4,718,799

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. However, for the year ended June 30, 2011, DLNR made no reimbursements to the State for its share of debt payments and related interest expense. The details of these general obligation bonds at June 30, 2011 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	309,058

$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 3.40% to 6.00% payable semi-annually	$270,595
$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	158,636
$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	173,417
$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	52
$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	2,254
$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 4.50% to 5.625% payable semi-annually	10,218

$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	$ 265,557
$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	543,408
$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 2.80% to 5.25% payable semi-annually	322,924
$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	426,101
$1,523,579 series DI bonds dated March 23, 2006; due in varying annual installments commencing September 1, 2009 through final payment on March 1, 2026; interest at various interest rates payable semi-annually	1,462,962
$567,907 series DJ bonds dated April 12, 2007; due in varying annual installments commencing October 1, 2009 through final payment on April 1, 2027; interest at various interest rates payable semi-annually	567,907
	$4,718,799

As no debt payments were made by DLNR during the year, accrued interest for the fiscal year ended June 30, 2011 approximated $194,400.

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

Fiscal year ending June 30,	Principal	Interest	Total
2012	$1,522,241	$ 350,513	$1,872,754
2013	509,960	129,598	639,558
2014	424,837	111,826	536,663
2015	376,144	98,065	474,209
2016	253,477	85,565	339,042
2017	225,571	76,987	302,558
2018	180,602	68,542	249,144
2019	123,407	61,253	184,660
2020	129,571	55,091	184,662
2021	136,041	48,626	184,667
2022	142,819	41,827	184,646
2023	149,960	34,691	184,651
2024	157,473	27,193	184,666
2025	165,345	19,321	184,666
2026	173,606	11,053	184,659
2027	47,745	2,387	50,132
Total	$4,718,799	$1,222,538	$5,941,337

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 defined benefit 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.

Funding Policy - Most covered employees of the contributory plan 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, 2010, 2009, and 2008 were approximately $398,724,000, $387,748,000 and $377,475,000 respectively. The State contributed 100% of its required contributions for those years. Covered payroll for the fiscal year ended June 30, 2010 was approximately $2,628,369,000.

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.

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, 2011 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 $2,308,395 to the ERS for the fiscal year ended June 30, 2011.

8. COMMITMENTS AND CONTINGENCIES

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

Insurance - Insurance coverage is maintained at the State level. The State is substantially self-insured for all perils including workers' compensation. All payments for workers' compensation are reflected in the respective department or agency's financial statements. Workers' compensation payments made by the DLNR for the fiscal year ended June 30, 2011 approximated $218,470 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 $11,876,000 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.

Encumbrances - Commitments for DLNR include encumbrances outstanding as of June 30, 2011 for its major and non-major governmental funds. Encumbrances are included in each fund's appropriate fund balance and are as follows:

Fund	Amount
General Fund	$ 2,016,887
Federal Grant Fund	9,382,152
Water and Land Development	186,592
Ocean-Based Recreation Fund	1,119,676
Capital Projects Fund	69,853,145
Non-major Governmental Funds	17,923,128
	$100,481,580

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

9. CENTRAL SERVICE AND ADMINISTRATION FEES

During the fiscal year ended June 30, 2011, the DLNR's special revenue funds were charged by the Department of Budget and Finance, State of Hawaii, approximately $2,925,000 in central service and administration fees. At June 30, 2011, the DLNR owed the Department of Budget and Finance, State of Hawaii, approximately $1,029,000 in unpaid fees.

10. 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, 2011, DLNR has recorded a liability to OHA and the State of Hawaii in the Ocean-Based Recreation Fund of approximately $2,405,000 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.

11. INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2011 consisted of the following:

Transfer To	Transfer From (To)						
	General Fund	Federal Grant Fund	Water and Land Development	Ocean-Based Recreation Fund	Capital Projects Fund	Nonmajor Governmental	Total
Ocean-Based Recreation	$ -	$ -	$ -	$ -	$ -	$ (16,000)	$ (16,000)
Water and Land Development	-	-	-	-	-	229,055	229,055
Capital Projects Fund	-	-	-	-	-	1,454,064	1,454,064
Nonmajor Governmental	-	-	1,874	1,319,614	-	6,654,713	7,976,201
Other Transfer, Net; Major and Nonmajor Governmental	-	-	(229,055)	16,000	(1,454,064)	(6,120,336)	(7,787,455)
Total	$ -	$ -	$(227,181)	$1,335,614	$(1,454,064)	$2,201,496	$ 1,855,865

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.

12. 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 $648,103 as of June 30, 2011.

PART III

SUPPLEMENTAL SECTION

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2011

	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	$6,771,208	$10,132,067	$1,961,530	$621,737	$2,716,289	$ -	$2,442,381	$1,380,758	$228,261	$6,720,707	$ 48,802	$33,023,740
Receivables:												
General leases and licenses, net of allowance for losses	-	-	-	-	-	-	-	-	-	-	-	-
Due from Federal Grant Fund	30,706	-	-	-	96,467	-	245,140	-	-	115,554	62,230	550,097
Total assets	$6,801,914	$10,132,067	$1,961,530	$621,737	$2,812,756	$ -	$2,687,521	$1,380,758	$228,261	$6,836,261	$111,032	$33,573,837
LIABILITIES												
Vouchers and contracts payable	$ 241,678	$ 23,072	$ 42,809	$ 17,000	$ 407,431	$ -	$ 282,967	$ -	$ 36,977	$ 541,513	$ -	$ 1,593,447
Accrued wages and employee benefits payable	244,579	-	159,866	3,243	38,484	-	1,704	14,749	68,748	93,202	-	624,575
Due to other State agencies	61,459	-	8,225	-	2,448	-	-	-	-	106,654	-	178,786
Deferred revenue	1,319,583	-	-	-	6,404	-	-	1,448	-	-	-	1,327,435
Security deposits	-	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	1,867,299	23,072	210,900	20,243	454,767	-	284,671	16,197	105,725	741,369	-	3,724,243
FUND BALANCES												
Restricted	-	-	-	-	-	-	-	-	-	-	-	-
Committed	4,934,615	10,108,995	1,750,630	601,494	2,357,989	-	2,402,850	1,364,561	122,536	6,094,892	111,032	29,849,594
Total fund balances	4,934,615	10,108,995	1,750,630	601,494	2,357,989	-	2,402,850	1,364,561	122,536	6,094,892	111,032	29,849,594
Total liabilities and fund balances	$6,801,914	$10,132,067	$1,961,530	$621,737	$2,812,756	$ -	$2,687,521	$1,380,758	$228,261	$6,836,261	$111,032	$33,573,837

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2011

	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	Recreational Renaissance - Boating	Recreational Renaissance - Forestry	Subtotal Carried Forward
ASSETS												
Cash and short-term cash investments held in State Treasury	$33,023,740	$784,087	$75,243	$88,755	$2,785,140	$121,534	$1,035,770	$1,305,204	$491,080	$69,392	$29,399	$39,809,344
Receivables:												
General leases and licenses, net of allowance for losses	-	-	-	-	58,072	-	-	-	-	-	-	58,072
Due from Federal Grant Fund	550,097	9,978	-	-	-	-	-	-	-	-	-	560,075
Total assets	$33,573,837	$794,065	$75,243	$88,755	$2,843,212	$121,534	$1,035,770	$1,305,204	$491,080	$69,392	$29,399	$40,427,491
LIABILITIES												
Vouchers and contracts payable	$ 1,593,447	$ 35,928	$10,939	$ -	$ 848,673	$ -	$ 26,702	$ 107,397	$ 1,624	$14,024	$ -	$ 2,638,734
Accrued wages and employee benefits payable	624,575	24,224	6,250	1,006	100,434	-	37,638	-	31,332	-	-	825,459
Due to other State agencies	178,786	4,061	-	-	4,014	-	-	-	-	24,365	-	211,226
Deferred revenue	1,327,435	-	-	-	186,423	-	-	-	-	-	-	1,513,858
Security deposits	-	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	3,724,243	64,213	17,189	1,006	1,139,544	-	64,340	107,397	32,956	38,389	-	5,189,277
FUND BALANCES												
Restricted	-	-	-	-	-	-	-	-	-	-	-	-
Committed	29,849,594	729,852	58,054	87,749	1,703,668	121,534	971,430	1,197,807	458,124	31,003	29,399	35,238,214
Total fund balances	29,849,594	729,852	58,054	87,749	1,703,668	121,534	971,430	1,197,807	458,124	31,003	29,399	35,238,214
Total liabilities and fund balances	$33,573,837	$794,065	$75,243	$88,755	$2,843,212	$121,534	$1,035,770	$1,305,204	$491,080	$69,392	$29,399	$40,427,491

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2011

	Subtotal Brought Forward	Recreational Renaissance - Parks	Donations, Gifts and Grants Private & Gov't Fund	Preservation of Endangered Plants Fund	Kaho'olawe Rehabilitation Trust Fund	Donations, Gifts and Grants Fund	OHA Kikakakeokea Trust Fund	Endangered Species Trust Fund	Assistance in Managing Land Funds	Total Other Governmental Fund
ASSETS										
Cash and short-term cash investments held in State Treasury	$39,809,344	$485,705	$12,100,003	$2,342	$10,713,004	$7,500	$48,314	$689,215	$223,073	$64,078,500
Receivables:										
General leases and licenses, net of allowance and losses	58,072	-	-	-	-	-	-	-	-	58,072
Due from Federal Grant Fund	560,075	-	-	-	-	-	-	-	-	560,075
Total assets	$40,427,491	$485,705	$12,100,003	$2,342	$10,713,004	$7,500	$48,314	$689,215	$223,073	$64,696,647
LIABILITIES										
Vouchers and contracts payable	$ 2,638,734	$ 54,148	$ 170,631	$ -	$ 192,879	$3,750	$ -	$ 88,075	$ 30,449	$ 3,178,666
Accrued wages and employee benefits payable	825,459	-	-	-	105,440	-	-	4,697	-	935,596
Due to other State agencies	211,226	3,939	-	-	-	-	-	-	-	215,165
Deferred revenue	1,513,858	20,801	2,087,099	-	-	-	-	-	-	3,621,758
Security deposits	-	-	-	-	-	-	-	39,600	-	39,600
Total liabilities	5,189,277	78,888	2,257,730	-	298,319	3,750	-	132,372	30,449	7,990,785
FUND BALANCES										
Restricted	-	-	-	-	10,414,685	-	-	-	-	10,414,685
Committed	35,238,214	406,817	9,842,273	2,342	-	3,750	48,314	556,843	192,624	46,291,177
Total fund balances	35,238,214	406,817	9,842,273	2,342	10,414,685	3,750	48,314	556,843	192,624	56,705,862
Total liabilities and fund balances	$40,427,491	$485,705	$12,100,003	$2,342	$10,713,004	$7,500	$48,314	$689,215	$223,073	$64,696,647

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, 2011

	Special Land Development Fund	Land Conservation Fund	Bureau of Conveyances Fund	Commercial Fisheries Fund	Forest Stewardship Fund	Aquatic Resources Fund	Forests and Wildlife Fund	Water Resources Fund	Conservation Resource Enforcement Fund	Natural Area Reserves Fund	Historical Preservation Fund	Subtotal Carried Forward
Revenues												
Intergovernmental revenue	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
General leases, licenses and permits	7,920,730	-	4,689,733	268,870	117,695	-	-	58,732	-	2,300	48,450	13,106,510
Taxes, fuel and others	-	4,796,117	-	-	-	-	-	-	-	9,592,234	-	14,388,351
Net investment gain	184,188	229,413	16,470	7,893	63,135	-	93,756	55,303	13,186	141,053	1,462	805,859
Other	30,801	-	-	50,000	51,367	-	399	455	-	900	-	133,922
Total revenues	8,135,719	5,025,530	4,706,203	326,763	232,197	-	94,155	114,490	13,186	9,736,487	49,912	28,434,642
Expenditures												
Current:												
Economic development	-	-	-	189,569	2,362,854	-	-	-	-	-	-	2,552,423
Environmental protection	-	-	-	-	-	-	1,874,184	383,971	1,366,838	6,016,933	-	9,641,926
Culture and recreation	-	-	-	-	-	-	-	-	-	-	19,774	19,774
Public safety	-	-	-	-	-	-	-	-	-	-	-	-
Individual rights	-	-	3,591,015	-	-	-	-	-	-	-	-	3,591,015
Government-wide support	5,151,648	4,816,371	-	-	-	-	-	-	-	-	-	9,968,019
Total expenditures	5,151,648	4,816,371	3,591,015	189,569	2,362,854	-	1,874,184	383,971	1,366,838	6,016,933	19,774	25,773,157
Excess of revenues over (under) expenditures	2,984,071	209,159	1,115,188	137,194	(2,130,657)	-	(1,780,029)	(269,481)	(1,353,652)	3,719,554	30,138	2,661,485
Other financing sources (uses)												
Operating transfers in	1,786,213	2,599,580	458,090	469,190	3,889,794	-	2,584,177	1,672,878	1,323,626	72,809	19,977	14,876,334
Operating transfers out	(6,241,844)	(2,999,580)	(500,153)	(385,903)	(2,050,851)	(865)	(542,085)	(1,394,137)	(61,459)	(3,095,616)	(20,699)	(17,293,192)
Total other financing sources (uses)	(4,455,631)	(400,000)	(42,063)	83,287	1,838,943	(865)	2,042,092	278,741	1,262,167	(3,022,807)	(722)	(2,416,858)
Net change in fund balances	(1,471,560)	(190,841)	1,073,125	220,481	(291,714)	(865)	262,063	9,260	(91,485)	696,747	29,416	244,627
Fund balances at July 1, 2010	6,406,175	10,299,836	677,505	381,013	2,649,703	865	2,140,787	1,355,301	214,021	5,398,145	81,616	29,604,967
Fund balances at June 30, 2011	$ 4,934,615	$10,108,995	$1,750,630	$ 601,494	$2,357,989	$ -	$2,402,850	$1,364,561	$ 122,536	$ 6,094,892	$111,032	$29,849,594

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, 2011

	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	Recreational Renaissance - Boating	Recreational Renaissance - Forestry	Subtotal Carried Forward
Revenues												
Intergovernmental revenues	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
General leases, licenses and permits	13,106,510	59,756	145,747	19,267	2,284,922	-	50	-	-	99,083	29,737	15,745,072
Taxes, fuel and others	14,388,351	350,000	-	-	900,000	-	-	-	-	-	-	15,638,351
Net investment gain	805,859	34,374	1,916	3,665	105,192	3,567	29,280	40,942	22,334	-	-	1,047,129
Other	133,922	3,336	500	470	8,779	-	-	-	28,925	-	-	175,932
Total revenues	28,434,642	447,466	148,163	23,402	3,298,893	3,567	29,330	40,942	51,259	99,083	29,737	32,606,484
Expenditures												
Current:												
Economic development	2,552,423	-	-	-	-	-	-	-	-	-	-	2,552,423
Environmental protection	9,641,926	-	-	-	-	-	-	-	559,987	-	-	10,201,913
Culture and recreation	19,774	532,626	140,884	19,915	4,888,828	36,399	-	-	-	256,925	954	5,896,305
Public safety	-	-	-	-	-	-	840,450	489,284	-	-	-	1,329,734
Individual rights	3,591,015	-	-	-	-	-	-	-	-	-	-	3,591,015
Government-wide support	9,968,019	-	-	-	-	-	-	-	-	-	-	9,968,019
Total expenditures	25,773,157	532,626	140,884	19,915	4,888,828	36,399	840,450	489,284	559,987	256,925	954	33,539,409
Excess of revenues over (under) expenditures	2,661,485	(85,160)	7,279	3,487	(1,589,935)	(32,832)	(811,120)	(448,342)	(508,728)	(157,842)	28,783	(932,925)
Other financing sources (uses)												
Operating transfers in	14,876,334	830,239	50,398	87,397	2,814,915	-	1,456,587	-	1,006,713	204,512	616	21,327,711
Operating transfers out	(17,293,192)	(832,604)	(50,398)	(87,397)	(2,077,119)	(147)	(747,581)	-	(497,577)	(188,512)	(616)	(21,775,143)
Total other financing sources (uses)	(2,416,858)	(2,365)	-	-	737,796	(147)	709,006	-	509,136	16,000	-	(447,432)
Net change in fund balances	244,627	(87,525)	7,279	3,487	(852,139)	(32,979)	(102,114)	(448,342)	408	(141,842)	28,783	(1,380,357)
Fund balances at July 1, 2010	29,604,967	817,377	50,775	84,262	2,555,807	154,513	1,073,544	1,646,149	457,716	172,845	616	36,618,571
Fund balances at June 30, 2011	$ 29,849,594	$ 729,852	$ 58,054	$ 87,749	$ 1,703,668	$ 121,534	$ 971,430	$1,197,807	$ 458,124	$ 31,003	$29,399	$ 35,238,214

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, 2011

	Subtotal Brought Forward	Recreational Renaissance - Parks	Donations, Gifts and Grants - Private & Gov't Fund	Preservation of Endangered Plants Fund	Kaho'olawe Rehabilitation Trust Fund	Donations, Gifts and Grants Fund	OHA Kikakakeokea Trust Fund	Endangered Species Trust Fund	Assistance in Managing Land Fund	Total Other Governmental Fund
Revenues										
Intergovernmental revenues	$ -	$ -	$ -	$ -	$ 81,075	$ -	$ -	$ -	$ -	$ 81,075
General leases, licenses and permits	15,745,072	608,305	-	-	-	-	-	-	-	16,353,377
Taxes, fuel and others	15,638,351	-	-	-	-	-	-	-	-	15,638,351
Net investment gain	1,047,129	-	174,121	6	687,709	-	728	16,631	10,724	1,937,048
Other	175,932	2,566	10,208,143	-	49,908	15,000	-	313,758	-	10,765,307
Total revenues	32,606,484	610,871	10,382,264	6	818,692	15,000	728	330,389	10,724	44,775,158
Expenditures										
Current:										
Economic development	2,552,423	-	-	-	-	-	-	-	153,243	2,705,666
Environmental protection	10,201,913	-	-	-	3,162,342	49,950	-	237,870	-	13,652,075
Culture and recreation	5,896,305	320,410	-	-	-	-	-	-	-	6,216,715
Public safety	1,329,734	-	-	-	-	-	-	-	-	1,329,734
Individual rights	3,591,015	-	-	-	-	-	-	-	-	3,591,015
Government-wide support	9,968,019	-	832,829	-	-	-	-	-	-	10,800,848
Total expenditures	33,539,409	320,410	832,829	-	3,162,342	49,950	-	237,870	153,243	38,296,053
Excess of revenues over (under) expenditures	(932,925)	290,461	9,549,435	6	(2,343,650)	(34,950)	728	92,519	(142,519)	6,479,105
Other financing sources (uses)										
Operating transfers in	21,327,711	118,289	5,231,232	2,336	12,399,558	14,700	48,365	495,611	107,189	39,744,991
Operating transfers out	(21,775,143)	(118,289)	(6,985,296)	(2,336)	(12,399,558)	(14,700)	(48,365)	(495,611)	(107,189)	(41,946,487)
Total other financing sources (uses)	(447,432)	-	(1,754,064)	-	-	-	-	-	-	(2,201,496)
Net change in fund balances	(1,380,357)	290,461	7,795,371	6	(2,343,650)	(34,950)	728	92,519	(142,519)	4,277,609
Fund balances at July 1, 2010	36,618,571	116,356	2,046,902	2,336	12,758,335	38,700	47,586	464,324	335,143	52,428,253
Fund balances at June 30, 2011	$ 35,238,214	$406,817	$ 9,842,273	$2,342	$ 10,414,685	$ 3,750	$48,314	$556,843	$192,624	$ 56,705,862

PART IV

COMPLIANCE AND INTERNAL CONTROL SECTION

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CERTIFIED PUBLIC ACCOUNTANTS

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Land and Natural Resources
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, 2011, which collectively comprise the Department's basic financial statements and have issued our report thereon dated March 23, 2012. 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Department in a separate letter dated March 23, 2012.

This report is intended solely for the information and use of the management of the Department and is not intended to be and should not be used by anyone other than this specified party.

Ohata Chun Goya LLP

Honolulu, Hawaii
March 23, 2012