

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

JUNE 30, 2013

PART I
INTRODUCTORY SECTION

December 13, 2013

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, 2013. 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, 2013.

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. |

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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,



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PART II

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Board of Land and Natural Resources
State of Hawaii

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Department of Land and Natural Resources, State of Hawaii (Department), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Department, as of June 30, 2013, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Department include only the governmental activities, each major fund, and the aggregate remaining fund information of the Department, and are not intended to present fairly the financial position of the State of Hawaii as of June 30, 2013, 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. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7 through 17 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

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 it.

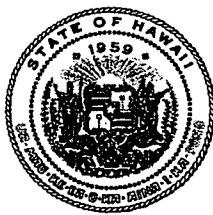
Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2013, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

A handwritten signature in cursive script, reading "Ohata Chun-fun LLP".

Honolulu, Hawaii
December 13, 2013

NEIL ABERCROMBIE
GOVERNOR OF HAWAII



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

POST OFFICE BOX 621
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WILLIAM J. AILA, JR.
CHAIRPERSON
BOARD OF LAND AND NATURAL RESOURCES
COMMISSION ON WATER RESOURCE MANAGEMENT

JESSE K. SOUKI
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
KAROLAWA 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, 2013. 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 2013

- The assets of the DLNR exceeded its liabilities at June 30, 2013, by \$597.8 million. Of this amount, \$48.3 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 \$191.7 million.
- During the year, the DLNR's governmental funds total revenue was \$152.8 million and expenses totaled \$126.9 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013

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 as 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013

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 position may serve over time as a useful indicator of the DLNR's financial position. As of June 30, 2013, the DLNR's total net position was approximately \$597.8 million.

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

The following is a comparative statement of net position:

Summary of Statement of Net Position
(in millions)

	2013	2012	Increase (Decrease)
Cash and short term investments	\$225.6	\$ 213.7	\$ 11.9
Receivables	5.9	6.8	(0.9)
Capital assets	420.9	388.9	32.0
Total assets	<u>\$ 652.4</u>	<u>\$ 609.4</u>	<u>\$ 43.0</u>
Current liabilities	46.9	49.0	(2.1)
Long-term liabilities	7.6	7.8	(0.2)
Total liabilities	<u>54.5</u>	<u>56.8</u>	<u>(2.3)</u>
Invested in capital assets, net of related debt	414.1	385.7	28.4
Restricted	135.5	128.2	7.3
Unrestricted	48.3	38.7	9.6
Total net position	<u>597.9</u>	<u>552.6</u>	<u>45.3</u>
Total liabilities and net position	<u>\$ 652.4</u>	<u>\$ 609.4</u>	<u>\$ 43.0</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013

DLNR's net position increased by \$43 million for the fiscal year ended June 30, 2013. Over half of the \$11.9 million increase in cash is in the Natural Area Reserves Fund and the Land Conservation Fund due to increased revenues from collection of conveyances taxes. The cash balance of the Special Land Development Fund also increased by \$1.5 million. The Capital Projects Fund made up the balance of the increase in cash where outstanding encumbrances and allotment balances are considered cash equivalents. The \$32.0 million increase in capital assets are due to a \$24.7 million increase in construction work in progress for improvements to the ferry system, boat ramps, and various state park facilities as well as \$4.2 million deposit for a land purchase to be completed in the near future.

Analysis of the DLNR's Operations: The following table provides a summary of the DLNR's operations for the year ended June 30, 2013:

Changes in Net Position (in millions)			
	2013	2012	Increase (Decrease)
Program revenue			
Interest, rents, taxes and fees	\$ 59.8	\$ 49.0	\$ 10.8
Operating grants and contributions	31.1	34.9	(3.8)
State allotted appropriations, net of lapses	54.5	87.3	(32.8)
Total revenue	145.4	171.2	(25.8)
Total expenses	99.0	110.1	(11.1)
Excess before transfers	46.4	61.1	(14.7)
Transfers	(1.1)	0.5	(1.6)
Change in net position	45.3	61.6	(16.3)
Net position -- beginning	552.6	491.0	61.6
Net position - end of year	\$ 597.9	\$ 552.6	\$ 45.3

Revenues of the DLNR consist of state appropriations, charges for services, program investment income and federal grants. Charges for services consist primarily of rent from leases, licenses and permits from public lands. Allocations of conveyance and liquid fuel taxes are also included in program revenue as is interest earned on funds invested by the State Director of Finance.

The \$10.8 million increase in interest, rents, taxes and fees is due mostly to the \$6.3 million increase of conveyance taxes deposited into the Natural Area Reserves Fund and the Land Conservation Fund. Also, program revenues of the Ocean-Based Recreation Fund increased over \$1 million as the economy recovered and the Dam and Reservoir Safety Fund collected an additional \$1 million upon establishing a new fee structure.

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013

The decrease of \$32.8 million in State allotted appropriations is a result of the continuation of DLNR's CIP projects already allotted in the prior year, including the \$17.3 million for improvements of boating facilities and \$7.8 million for repair of DLNR facilities damaged by the March 2011 tsunami.

The decrease of \$11.1 million in total expenses is mainly due to decrease in capital outlays.

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)

	<u>Assets</u>			<u>Liabilities</u>			<u>Fund Balances</u>		
	<u>2013</u>	<u>2012</u>	<u>Change</u>	<u>2013</u>	<u>2012</u>	<u>Change</u>	<u>2013</u>	<u>2012</u>	<u>Change</u>
General Fund	\$ 4.1	\$ 4.6	\$ (0.5)	\$ 2.3	\$ 2.7	\$(0.4)	\$ 1.8	\$ 1.9	\$ (0.1)
Federal Grant Fund	9.9	12.9	(3.0)	16.7	18.3	(1.6)	(6.8)	(5.4)	(1.4)
Water and Land Development Fund	2.1	2.0	0.1	6.2	6.2	0.0	(4.1)	(4.2)	0.1
Ocean Based Recreation Fund	8.9	8.0	0.9	4.3	4.9	(0.6)	4.6	3.1	1.5
Capital Projects Fund	137.9	129.2	8.7	7.7	8.7	(1.0)	130.2	120.5	9.7
Other Funds	<u>74.7</u>	<u>65.5</u>	<u>9.2</u>	<u>8.7</u>	<u>6.7</u>	<u>2.0</u>	<u>66.0</u>	<u>58.8</u>	<u>7.2</u>
Total	<u>\$ 237.6</u>	<u>\$ 222.2</u>	<u>\$ 15.4</u>	<u>\$ 45.9</u>	<u>\$ 47.5</u>	<u>\$ (1.6)</u>	<u>\$ 191.7</u>	<u>\$ 174.7</u>	<u>\$ 17.0</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013

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

	Revenues			Expenditures			Transfers			Lapsed Appropriations			Net Changes in Fund Balances		
	2013	2012	Change	2013	2012	Change	2013	2012	Change	2013	2012	Change	2013	2012	Change
General Fund	\$26.1	\$25.5	\$0.6	\$23.4	\$22.6	\$0.8	\$0.0	\$0.0	\$0.0	-\$2.8	-\$2.0	-\$0.8	-\$0.1	\$0.9	-\$1.0
Federal Grant Fund	21.3	21.6	-0.3	22.7	21.7	1.0	0.0	0.0	0.0	0.0	0.0	0.0	-\$1.4	-0.1	-1.3
Water and Land Development	0.0	0.0	0.0	0.4	0.1	0.3	0.4	0.1	0.3	0.0	0.0	0.0	\$0.0	0.0	0.0
Ocean-Based Recreation Fund	14.9	13.5	1.4	11.6	10.3	1.3	-1.8	-1.7	-0.1	0.0	0.0	0.0	\$1.5	1.5	0.0
Capital Projects Fund	41.9	73.8	-31.9	30.0	38.8	-8.8	2.8	0.0	2.8	-4.9	-1.4	-3.5	\$9.8	33.6	-23.8
Other Funds	48.5	40.0	8.5	38.8	39.9	-1.1	-2.5	2.0	-4.5	0.0	0.0	0.0	\$7.2	2.1	5.1
Total	\$152.7	\$174.4	-\$21.7	\$126.9	\$133.4	-\$6.5	-\$1.1	\$0.4	-\$1.5	-\$7.7	-\$3.4	-\$4.3	\$17.0	\$38.0	-\$21.0

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

The General Fund is the primary operating fund of the DLNR. At the end of the current fiscal year, there was a \$1.8 million encumbrance balance that remained after the current year's net gain in the General Fund and reflected as assigned fund balance in accordance with GASB Statement No. 54.

The DLNR has three major and several non-major special funds. A fund is categorized as major if the percentages of its assets, liabilities, revenues, or expenditures exceed pre-defined percentages when compared to the corresponding total of all funds in that category. The DLNR's three major special revenue funds are: 1) Federal Grant Fund, 2) Water and Land Development Fund, and 3) Ocean-Based Recreation Fund.

The Federal Grant Fund accounts for funds received from a variety of federal grantor agencies for specific purposes ranging from restoration, protection and acquisition of natural resources to assistance following a natural disaster. Total federal grant expenditures for the year approximated \$22.7 million from nearly 200 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. Revenues were approximately \$14.9 million and expenditures were approximately \$11.6 million.

The Capital Projects Fund received approximately \$41.9 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 POSITION

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013

Summary of Statement of Fiduciary Position
(In millions)

	2013	2012	Increase (Decrease)
Cash and short term investments	\$ 22.6	\$ 20.7	\$ 1.9
Receivables - General leases and licenses	0.2	0.6	(0.4)
Total assets	<u>22.8</u>	<u>21.3</u>	<u>1.5</u>
Due to State Treasury	0.1	0.3	(0.2)
Due to other State agencies	0.7	0.9	(0.2)
Total liabilities	<u>0.8</u>	<u>1.2</u>	<u>(0.4)</u>
Held in trust for Individuals and organizations	22.0	20.1	1.9
Total net position	<u>\$ 22.0</u>	<u>\$ 20.1</u>	<u>\$ 1.9</u>

In compliance with Executive Order 06-06, which carries out the requirements of Act 178, SLH 2006, DLNR established holding accounts to accumulate the general fund's share of receipts derived from the use of ceded land. DLNR uses these funds to cover the difference in payments made by all state agencies and the total amount owed to OHA. In fiscal year 2013, the shortfall that DLNR was required to cover continues to be less than in prior years. This resulted in an increase of the fiduciary funds cash balance reserved to ensure state obligations to OHA are paid in full each year.

BUDGETARY HIGHLIGHTS

General Fund - Actual expenditures for general funded programs were \$2.4 million less than the budgeted expenditures due to budget restrictions and vacancy savings.

Federal Funds - In fiscal year 2013, the DLNR requested and received approval from the Governor to increase the ceilings on its federal grant operating appropriations by approximately \$4.2 million for new and additional federal grants. Additional funding of \$1.7 million was approved by Fish and Wildlife Services for various sport fish restoration projects. The Division of Conservation and Resources Enforcement received \$1.3 million of additional federal funding for hunter education, shoreline and water patrols, and marijuana eradication programs. The Division of Boating and Ocean Recreation will receive \$1.2 million of new federal funding for its boat safety program.

\$29.0 million of federal funds were carried over from FY12 to FY13 for our aquatic, forestry and wildlife, and conservation and enforcement 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, shoreline enforcement, and marijuana eradication programs.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

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 and the auction rate securities valuation adjustment amounted to \$38,928. Vacation transfer in for the fiscal year was \$19,245. 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 \$1.9 million less than budgeted due to the economic recovery process being slower than anticipated. Expenditures of this special fund are supported by the revenue it generates; a lower than anticipated revenue collection means curtailment of its expenditures, resulting in expenditure levels being less than budgeted.

CAPITAL ASSETS AND DEBT ADMINISTRATION

At the end of fiscal year 2013, the DLNR had invested approximately \$416.7 million (net of accumulated depreciation) in a broad range of capital assets. A major portion of the \$23.9 million increase in construction-in-progress projects is for improvements of harbors, ferry system, and various state park facilities. The \$9.1 million increase of depreciable assets includes \$5.7 million of improvements in state office buildings which house DLNR offices. This increase is offset by reclassification of \$3.1 million of capital assets previously under building to land improvements.

See Note 5 to the financial statements for a description of capital assets activities for the fiscal year ended June 30, 2013.

Capital Assets (In millions)			
	2013	2012	Increase (Decrease)
Capital assets not being depreciated			
Land	\$ 173.4	\$ 171.9	\$ 1.5
Land improvements	3.8	3.8	0.0
Construction in progress	181.2	157.3	23.9
Total capital assets not being depreciated	358.4	333.0	25.4

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013

Capital assets being depreciated			
Buildings	58.3	56.5	1.8
Land and improvements	94.3	89.7	4.6
Furniture and equipment	15.0	13.6	1.4
Vehicles	18.0	16.7	1.3
Total capital assets being depreciated	185.6	176.5	9.1
Less total accumulated depreciation	(127.3)	(120.6)	(6.7)
Total capital assets being depreciated, net	58.3	55.9	2.4
Total capital assets, net	\$ 416.7	\$ 388.9	\$ 27.8

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

The accrued vacation balance as of June 30, 2013 was \$7,922,548, an increase of \$123,309 from fiscal year 2012. Beginning with FY06, leave amounts were increased to include certain fringe benefits. For FY13, the value attributed to fringe benefits was \$563,005.

The outstanding balance of the State of Hawaii general obligation bonds allocated to the DLNR remained approximately \$2.7 million as of June 30, 2013. 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, 2013.

Long Term Obligations (In millions)			
	2013	2012	Increase (Decrease)
Accrued vacation	\$ 7.9	\$ 7.8	\$ 0.1
General obligation bonds	2.7	3.2	(0.5)
Total long term debt	\$ 10.6	\$ 11.0	\$ (0.4)

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

The Department has entered into three agreements with the Department of Budget and Finance for loans up to \$5 million to temporarily fund grant reimbursable costs on Federal Aid projects for ferry system improvements in Maui County. The DLNR serves as a sub-recipient to the State Department of Transportation for these projects and is required to pay its vendors' invoices prior to submitting claims for reimbursement.

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013

FINANCIAL CONTACT

This financial report is designed to provide a general overview of the DLNR's finances for all interested parties. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Department of Land and Natural Resources, Administrative Services Office, P. O. Box 621, Honolulu, Hawaii 96809.

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Statement Of Net Position
June 30, 2013

ASSETS

Cash and short-term cash investments held in State Treasury	\$225,620,470
Receivables:	
Federal grants	5,675,488
General leases and licenses, net of allowance for losses of \$668,261	212,228
Deposit on land purchase	4,165,000
Capital assets:	
Land, improvements, construction-in-progress and other capital assets, net of depreciation	<u>416,737,405</u>
 Total assets	 <u>\$652,410,591</u>

LIABILITIES

Vouchers and contracts payable	\$ 13,060,435
Accrued wages and employee benefits payable	2,853,906
Due to State Treasury	11,238,572
Due to other State Agencies	8,141,906
Deferred revenue	4,975,315
General obligation bonds:	
Due within one year	425,000
Due in more than one year	2,261,599
Note payable to State Treasury	3,648,107
Accrued vacation:	
Due within one year	2,537,845
Due in more than one year	5,384,703
Security deposits	<u>39,600</u>
 Total liabilities	 <u>54,566,988</u>

Commitments and contingencies

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

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Statement Of Net Position
June 30, 2013

NET POSITION

Invested in capital assets, net of related debt	\$414,050,806
Restricted	135,540,264
Unrestricted	<u>48,252,533</u>
Total net position	<u>597,843,603</u>
Total liabilities and net position	<u>\$652,410,591</u>

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

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Statement Of Activities
For The Year Ended June 30, 2013

Functions/Programs	Program Revenue			Net (Expense) Revenue and Changes in Net Position
	Expenses	Interest, Rents and Fees	Operating Grants and Contributions	
Departmental activities:				
Economic development	\$ 7,057,482	\$ 826,511	\$ 3,009,022	\$ (3,221,949)
Environmental protection	40,781,689	14,053,492	16,600,003	(10,128,194)
Culture and recreation	30,627,858	20,495,916	10,098,264	(33,678)
Public safety	3,881,042	968,393	910,288	(2,002,361)
Individual rights	2,966,852	4,836,283	35	1,869,466
Government-wide support	8,332,649	18,586,009	458,463	10,711,823
Capital outlays	<u>5,393,402</u>	-	-	<u>(5,393,402)</u>
Total departmental activities	<u>\$99,040,974</u>	<u>\$59,766,604</u>	<u>\$31,076,075</u>	<u>(8,198,295)</u>
General revenues:				
Appropriations, net of lapsed appropriations				<u>54,555,666</u>
Total general revenues before transfers				54,555,666
Transfers, net				<u>(1,116,716)</u>
Total general revenues and transfers				<u>53,438,950</u>
Change in net position				<u>45,240,655</u>
Net position at July 1, 2012				<u>552,602,948</u>
Net position at June 30, 2013				<u>\$597,843,603</u>

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

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Balance Sheet
Governmental Funds
June 30, 2013

	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	\$ 4,093,833	\$ 7,146,001	\$ 2,071,925	\$ 7,658,096	\$ 130,816,744	\$ 73,833,871	\$ 225,620,470
Receivables:							
Federal grants	-	2,727,430	-	-	2,948,058	-	5,675,488
General leases and licenses, net of allowance of \$668,261	-	-	-	-	-	212,228	212,228
Due from Federal Grant Fund	-	-	-	1,249,097	-	705,852	1,954,949
Deposit on land purchase	-	-	-	-	4,165,000	-	4,165,000
Total assets	<u>\$ 4,093,833</u>	<u>\$ 9,873,431</u>	<u>\$ 2,071,925</u>	<u>\$ 8,907,193</u>	<u>\$ 137,929,802</u>	<u>\$ 74,751,951</u>	<u>\$ 237,628,135</u>
LIABILITIES							
Vouchers and contracts payable	\$ 1,222,108	\$ 3,307,234	\$ 20,728	\$ 524,744	\$ 3,613,670	\$ 4,371,951	\$ 13,060,435
Accrued wages and employee benefits payable	1,102,533	189,107	12,552	384,584	111,499	1,053,631	2,853,906
Due to State Treasury	-	10,051,434	-	1,187,138	-	-	11,238,572
Due to other State Agencies	-	-	6,180,795	1,714,212	-	246,899	8,141,906
Due to Special Revenue Funds	-	1,954,949	-	-	-	-	1,954,949
Deferred revenue	-	1,172,353	-	427,847	363,428	3,011,687	4,975,315
Note payable to State Treasury	-	-	-	-	3,648,107	-	3,648,107
Security deposits	-	-	-	-	-	39,600	39,600
Total liabilities	<u>2,324,641</u>	<u>16,675,077</u>	<u>6,214,075</u>	<u>4,238,525</u>	<u>7,736,704</u>	<u>8,723,768</u>	<u>45,912,790</u>
Commitments and contingencies							
FUND BALANCES							
Restricted	-	-	-	-	130,193,098	5,347,166	135,540,264
Committed	-	-	-	4,668,668	-	60,681,017	65,349,685
Assigned	1,769,192	-	-	-	-	-	1,769,192
Unassigned	-	(6,801,646)	(4,142,150)	-	-	-	(10,943,796)
Total fund balances	<u>1,769,192</u>	<u>(6,801,646)</u>	<u>(4,142,150)</u>	<u>4,668,668</u>	<u>130,193,098</u>	<u>66,028,183</u>	<u>191,715,345</u>
Total liabilities and fund balances	<u>\$ 4,093,833</u>	<u>\$ 9,873,431</u>	<u>\$ 2,071,925</u>	<u>\$ 8,907,193</u>	<u>\$ 137,929,802</u>	<u>\$ 74,751,951</u>	<u>\$ 237,628,135</u>

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

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Statement Of Revenues, Expenditures And Changes In Fund Balances
Governmental Funds
For The Year Ended June 30, 2013

	General Fund	Federal Grant Fund	Water and Land Development	Ocean-Based Recreation Fund	Capital Projects Fund	Other Funds	Total
Revenues							
Appropriations	\$26,116,524	\$ -	\$ -	\$ -	\$ 36,176,292	\$ -	\$ 62,292,816
Intergovernmental revenues	-	21,280,417	-	-	5,698,656	4,750	26,983,823
General leases, licenses and permits	-	-	-	13,070,758	-	24,065,345	37,136,103
Taxes, fuel and others	-	-	-	1,620,520	-	20,388,705	22,009,225
Net investment gain	-	21,369	38,928	132,173	12,004	416,800	621,274
Other	-	16,781	19,245	84,876	-	3,621,352	3,742,254
Total revenues	<u>26,116,524</u>	<u>21,318,567</u>	<u>58,173</u>	<u>14,908,327</u>	<u>41,886,952</u>	<u>48,496,952</u>	<u>152,785,495</u>
Expenditures							
Current:							
Economic development	1,213,180	2,569,123	376,348	-	-	3,070,757	7,229,408
Environmental protection	15,734,611	13,322,027	-	-	-	14,187,306	43,243,944
Culture and recreation	6,366,971	4,134,002	-	10,942,794	-	6,931,832	28,375,599
Public safety	90,456	2,706,492	-	-	-	1,056,123	3,853,071
Individual rights	-	-	-	-	-	4,177,862	4,177,862
Government-wide support	2,569	(28,304)	-	-	-	9,411,480	9,385,745
Capital improvement projects	-	-	-	-	29,981,040	-	29,981,040
Debt service:							
Principal on long-term debt	-	-	-	509,960	-	-	509,960
Interest on long-term debt	-	-	-	129,885	-	-	129,885
Total expenditures	<u>23,407,787</u>	<u>22,703,340</u>	<u>376,348</u>	<u>11,582,639</u>	<u>29,981,040</u>	<u>38,835,360</u>	<u>126,886,514</u>
Excess of revenues over (under) expenditures							
Other financing sources (uses)	2,708,737	(1,384,773)	(318,175)	3,325,688	11,905,912	9,661,592	25,898,981
Operating transfers in	-	11,316,049	1,981,035	17,858,072	2,778,832	46,970,256	80,904,244
Operating transfers out	-	(11,316,049)	(1,578,268)	(19,661,013)	-	(49,463,680)	(82,019,010)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>402,767</u>	<u>(1,802,941)</u>	<u>2,778,832</u>	<u>(2,493,424)</u>	<u>(1,114,766)</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses							
Lapsed appropriations	2,708,737	(1,384,773)	84,592	1,522,747	14,684,744	7,168,168	24,784,215
Net change in fund balances	2,809,594	-	-	-	4,927,556	-	7,737,150
Fund balances at July 1, 2012	(100,857)	(1,384,773)	84,592	1,522,747	9,757,188	7,168,168	17,047,065
Fund balances at June 30, 2013	1,870,049	(5,416,873)	(4,226,742)	3,145,921	120,435,910	58,860,015	174,668,280
Fund balances at June 30, 2013	<u>\$ 1,769,192</u>	<u>\$ (6,801,646)</u>	<u>\$ (4,142,150)</u>	<u>\$ 4,668,668</u>	<u>\$ 130,193,098</u>	<u>\$ 66,028,183</u>	<u>\$ 191,715,345</u>

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

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Statement Of Fiduciary Net Position
June 30, 2013

	<u>Agency Funds</u>
ASSETS	
Cash and short-term cash investments held in State Treasury	\$22,621,252
Receivables:	
General leases and licenses, net of allowance for losses of \$741,178	<u>210,224</u>
Total assets	<u>22,831,476</u>
LIABILITIES	
Due to State Treasury	47,694
Due to other State Agencies	<u>729,835</u>
Total liabilities	<u>777,529</u>
NET POSITION	
Held in trust for:	
Individuals and organizations	<u>22,053,947</u>
Total net position	<u>\$22,053,947</u>

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

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Reconciliation Of Governmental Funds Balance Sheet To The Statement Of Net Position
June 30, 2013

	Total Governmental Funds	Long-Term Assets, Liabilities	Reclassifications and Eliminations	Statement of Net Position
ASSETS				
Cash and short-term cash investments held in State Treasury	\$225,620,470	\$ -	\$ -	\$225,620,470
Receivables:				
Federal grants	5,675,488	-	-	5,675,488
General leases and licenses, net of allowance for losses	212,228	-	-	212,228
Due from Federal Grant Fund	1,954,949	-	(1,954,949)	-
Deposit on land purchase	4,165,000	-	-	4,165,000
Capital Assets:				
Land, improvements, construction-in-progress and other capital assets, net of depreciation	-	416,737,405 (1)	-	416,737,405
Total assets	<u>\$237,628,135</u>	<u>\$416,737,405</u>	<u>\$ (1,954,949)</u>	<u>\$652,410,591</u>
LIABILITIES				
Vouchers and contracts payable	\$ 13,060,435	\$ -	\$ -	\$ 13,060,435
Accrued wages and employee benefits payable	2,853,906	-	-	2,853,906
Due to State Treasury	11,238,572	-	-	11,238,572
Due to other State Agencies	8,141,906	-	-	8,141,906
Due to Special Revenue Funds	1,954,949	-	(1,954,949)	-
Deferred revenue	4,975,315	-	-	4,975,315
Bonds payable:				
Due within one year	-	425,000 (2)	-	425,000
Due in more than one year	-	2,261,599 (2)	-	2,261,599
Note payable to State Treasury	3,648,107	-	-	3,648,107
Accrued vacation:				
Due within one year	-	2,537,845 (3)	-	2,537,845
Due in more than one year	-	5,384,703 (3)	-	5,384,703
Security deposits	39,600	-	-	39,600
Total liabilities	<u>45,912,790</u>	<u>10,609,147</u>	<u>(1,954,949)</u>	<u>54,566,988</u>
FUND BALANCES/NET POSITION				
Invested in capital assets, net of related debt	-	388,930,466 (1) 34,670,218 (1) (6,863,279) (1) (2,686,599) (2)	-	414,050,806
Reserved/Restricted for:				
Restricted	135,540,264	-	-	135,540,264
Committed	65,349,685	-	(65,349,685) (4)	-
Assigned	1,769,192	-	(1,769,192) (4)	-
Unassigned	(10,943,796)	-	10,943,796 (4)	-
Unrestricted	-	(7,922,548) (3)	56,175,081 (4)	48,252,533
Total fund balances/net position	<u>191,715,345</u>	<u>406,128,258</u>	<u>-</u>	<u>597,843,603</u>
Total liabilities and fund balances/net position	<u>\$237,628,135</u>	<u>\$416,737,405</u>	<u>\$ (1,954,949)</u>	<u>\$652,410,591</u>

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

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Reconciliation Of Governmental Funds Balance Sheet To The Statement Of Net Position
June 30, 2013

Total fund balances - governmental funds	\$191,715,345
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Amounts reported for governmental activities in the statement of net position 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	\$ 94,271,938
Other capital assets	91,324,129
Accumulated depreciation	(127,295,983)
Land	173,377,317
Other capital assets, not depreciated	3,816,436
Construction-in-progress	<u>181,243,568</u>

Total capital assets	416,737,405
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- | | |
|---|-------------|
| (2) Bonds payable are not reported in the governmental funds. | (2,686,599) |
|---|-------------|

- | | |
|---|-------------|
| (3) Accrued vacation is not reported in the governmental funds. | (7,922,548) |
|---|-------------|

- | | |
|--|----------|
| (4) Reclassify committed, assigned and unassigned fund balances/net position to unrestricted fund balances/net position. | <u>-</u> |
|--|----------|

Total net position	<u>\$597,843,603</u>
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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, 2013

	Total Governmental Funds	Long-Term Assets, Liabilities	Reclassifications and Eliminations	Statement of Activities
Revenues				
Appropriations	\$ 62,292,816	\$ -	\$(7,737,150) (3)	\$ 54,555,666
Intergovernmental revenues	26,983,823	-	-	26,983,823
General leases, licenses and permits	37,136,103	-	-	37,136,103
Taxes, fuel and others	22,009,225	-	-	22,009,225
Net investment gain	621,274	-	-	621,274
Other	<u>3,742,254</u>	<u>350,000 (1)</u>	<u>-</u>	<u>4,092,254</u>
Total revenues	<u>152,785,495</u>	<u>350,000</u>	<u>(7,737,150)</u>	<u>145,398,345</u>
Expenditures				
Economic development	7,229,408	(462,745)(1) 292,587 (1) (1,768)(2)	-	7,057,482
Environmental protection	43,243,944	(4,931,272)(1) 1,289 (1) 2,319,829 (1) 147,899 (2)	-	40,781,689
Culture and recreation	28,375,599	(1,736,588)(1) 6,286 (1) 3,888,959 (1) (36,283)(2)	129,885 (5)	30,627,858
Public safety	3,853,071	(81,545)(1) 110,638 (1) (1,122)(2)	-	3,881,042
Individual rights	4,177,862	(1,275,918)(1) 66,853 (1) (1,945)(2)	-	2,966,852
Government-wide support	9,385,745	(1,254,037)(1) 184,413 (1) 16,528 (2)	-	8,332,649
Capital outlays	29,981,040	(24,587,638)(1)	-	5,393,402
Principal on long-term debt	509,960	(509,960)(4)	-	-
Interest on long-term debt	<u>129,885</u>	<u>-</u>	<u>(129,885) (5)</u>	<u>-</u>
Total expenditures	<u>126,886,514</u>	<u>(27,845,540)</u>	<u>-</u>	<u>99,040,974</u>
	<u>25,898,981</u>	<u>28,195,540</u>	<u>(7,737,150)</u>	<u>46,357,371</u>
Other financing uses and lapsed appropriations:				
Net operating transfers	(1,114,766)	(1,950)(1)	-	(1,116,716)
Lapsed appropriations	<u>(7,737,150)</u>	<u>-</u>	<u>7,737,150 (3)</u>	<u>-</u>
Change in fund balances/net position	<u>\$ 17,047,065</u>	<u>\$ 28,193,590</u>	<u>\$ -</u>	<u>\$ 45,240,655</u>

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

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Reconciliation Of Governmental Funds Statement Of Revenues, Expenditures And Changes In
Fund Balances To The Statement Of Activities
For The Year Ended June 30, 2013

Change in fund balances - governmental funds \$17,047,065

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	\$34,679,743
Depreciation expense	(6,863,279)
Loss on disposal of equipment	(7,575)
Net transfer-out of property and equipment	<u>(1,950)</u>

Excess of capital outlays over depreciation expense	27,806,939
--	------------

- | | |
|--|-----------|
| (2) The increase in accrued vacation is not reported in governmental funds. | (123,309) |
| (3) Lapsed appropriations are net against appropriations in the statement of activities. | - |
| (4) Repayment of bond principal is reported as an expenditure in governmental funds, but the repayment reduces bonds payable in the statement of net position. | 509,960 |
| (5) Reclassify interest on long-term debt to function. | <u>-</u> |

Change in net position	<u>\$45,240,655</u>
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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, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u>	<u>Final Budget -</u>
				<u>Positive</u>
				<u>(Negative)</u>
Appropriations	\$25,738,532	\$26,116,524	\$26,116,524	\$ -
Expenditures:				
Economic development	1,280,447	1,452,921	1,252,467	200,454
Environmental protection	17,779,886	17,789,061	16,173,836	1,615,225
Culture and recreation	6,678,199	6,798,042	6,249,357	548,685
Government-wide support	-	76,500	9,688	66,812
Total expenditures	<u>25,738,532</u>	<u>26,116,524</u>	<u>23,685,348</u>	<u>2,431,176</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,431,176</u>	<u>\$ 2,431,176</u>

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

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII

Statement Of Revenues And Expenditures - Budget And Actual - Other Major Funds
For The Year Ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u>	<u>Final Budget -</u> <u>Positive</u> <u>(Negative)</u>
<u>Federal Grant Fund</u>				
Revenues	\$19,398,967	\$67,407,616	\$21,318,567	\$(46,089,049)
Expenditures:				
Economic development	1,736,622	6,793,168	2,796,171	3,996,997
Environmental protection	11,049,460	32,866,450	11,746,504	21,119,946
Culture and recreation	6,169,548	24,769,774	4,608,706	20,161,068
Public safety	369,405	2,904,292	17,640	2,886,652
Government-wide support	<u>73,932</u>	<u>73,932</u>	<u>(28,304)</u>	<u>102,236</u>
Total expenditures	<u>19,398,967</u>	<u>67,407,616</u>	<u>19,140,717</u>	<u>48,266,899</u>
Excess of revenues over expenditures	\$ -	\$ -	\$ <u>2,177,850</u>	\$ <u>2,177,850</u>

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

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Statement Of Revenues And Expenditures - Budget And Actual - Other Major Funds
For The Year Ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u>	<u>Final Budget -</u> <u>Positive</u> <u>(Negative)</u>
<u>Water and Land Development Fund</u>				
Revenues	\$ 791,379	\$ 791,379	\$ 58,173	\$ (733,206)
Expenditures:				
Economic development	<u>791,379</u>	<u>791,379</u>	<u>517,945</u>	<u>273,434</u>
Excess of expenditures over revenues	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (459,772)</u>	<u>\$ (459,772)</u>
<u>Ocean-Based Recreation Fund</u>				
Revenues	\$16,618,658	\$16,834,843	\$14,908,328	\$(1,926,515)
Expenditures:				
Culture and recreation	<u>16,618,658</u>	<u>16,834,843</u>	<u>12,441,304</u>	<u>4,393,539</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,467,024</u>	<u>\$ 2,467,024</u>

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

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Notes To The Financial Statements
June 30, 2013

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, 2013, and for the year then ended.

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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 position and financial activities.

Departmental and Governmental Fund Financial Statements

Effective July 1, 2012, the DLNR implemented GASB Statement No. 63 (GASB 63), *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. Amounts required to be reported as deferred outflows of resources should be reported in a statement of financial position in a separate section following assets. Similarly, amounts required to be reported as deferred inflows of resources should be reported in a separate section following liabilities. The statement of net position should report the residual amount as net position, rather than net assets. The provisions of GASB 63 required these changes and replaces the statement of net assets with the statement of net position for accrual basis financial statements. This Statement did not have a material effect on DLNR's financial statements.

Effective July 1, 2012, the DLNR also implemented GASB Statement No. 65 (GASB 65), *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement did not have a material effect on DLNR's financial statements.

The departmental financial statements (the statement of net position 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.

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

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, 2013, has been reported only in the departmental financial statements.

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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.

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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 position 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.

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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 position 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, 2013 was \$20,535,203.

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.

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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.

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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, 2013, 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.

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Under Section 78-13 HRS, staff salaries and wages amounting to \$1,050,508 and \$550,169 in the general and major special revenue funds, respectively, as of June 30, 2013, are to be funded with monies budgeted for fiscal 2014. In addition, at June 30, 2013, the DLNR accrued expenditures of \$49,624 and \$252,660 in the general and major special revenue funds, respectively, for certain goods and services received through June 30, 2013, which the DLNR will fund with monies budgeted for fiscal 2014. 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, 2013 in accordance with accounting principles generally accepted in the United States of America.

The DLNR accrued certain salaries and wages as of June 30, 2012 and certain goods and services received through June 30, 2012, which the DLNR funded with monies budgeted for fiscal 2013. Accordingly, these amounts are included in the statements of revenues and expenditures - budget and actual, for the year ended June 30, 2013. These salaries, wages, goods and services aggregated \$1,123,264 and \$1,029,168 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, 2013.

	General Fund	Major Special Revenue Funds		
		Federal Grant Fund	Water and Land Development Fund	Ocean-Based Recreation Fund
Excess of revenues over (under) expenditures - actual on budgetary basis	\$2,431,176	\$ 2,177,850	\$(459,772)	\$2,467,024
Current year's appropriations included in reserved for encumbrances at June 30, 2013	2,243,199	5,585,003	312,539	1,199,572
Expenditures for liquidation of prior years' encumbrances	(1,988,750)	(9,198,445)	(161,634)	(525,736)
Fiscal 2012 salaries and wages and other expenditures funded by fiscal 2013 budget	1,123,264	341,855	4,776	682,537
Fiscal 2013 salaries and wages funded by fiscal 2014 budget under Section 78-13 HRS	(1,050,528)	(179,879)	-	(370,290)
Fiscal 2013 expenditures funded by fiscal 2014 budget	<u>(49,624)</u>	<u>(111,157)</u>	<u>(14,084)</u>	<u>(127,419)</u>
Excess of revenues over (under) expenditures - GAAP basis	<u>\$2,708,737</u>	<u>\$(1,384,773)</u>	<u>\$(318,175)</u>	<u>\$3,325,688</u>

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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.

A portion of the State Treasury Investment Pool was invested in auction rate securities. In prior years, due to ongoing issues in the credit market of the United States, particularly related to auction rate securities, the State Treasury Investment Pool recorded a decrease in fair value related to its investments in auction rate securities. During the fiscal year ended June 30, 2013, the State liquidated its holdings in these securities resulting in an increase in fair value of approximately \$483,000, which is recorded in investment earnings in the accompanying financial statements.

As of June 30, 2013, the carrying amount, which approximates the bank balance of the DLNR's cash and short-term cash investments and adjusted for the change in fair value, was \$225,620,470 for its governmental funds and \$22,621,252 for its fiduciary funds.

4. RECEIVABLES

At June 30, 2013, receivables for general leases and licenses for governmental funds consisted of the following:

Rents, fees and licenses	\$ 880,489
Less allowance for doubtful accounts	<u>(668,261)</u>
	<u>\$ 212,228</u>

The Department has installment agreements with certain lessees for accounts receivable of the trust and agency fund which aggregated \$171,029 at June 30, 2013. These agreements provide for interest rates from 0% to 9.75% and payment terms from 1 to 30 years.

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At June 30, 2013, receivables for general leases and licenses for fiduciary funds consisted of the following:

Rents, fees and licenses	\$ 951,402
Less allowance for doubtful accounts	<u>(741,178)</u>
	<u>\$ 210,224</u>

5. CAPITAL ASSETS

The changes in capital assets were as follows:

	Beginning Balance July 1, 2012	Additions, Adjustments and Transfers	Disposals, Adjustments and Transfers	Ending Balance June 30, 2013
Capital assets, not being depreciated -				
Land	\$171,857,317	\$ 1,520,000	\$ -	\$173,377,317
Land improvements	3,784,846	-	-	3,784,846
Construction-in-progress	157,335,799	24,587,638	(679,869)	181,243,568
Other assets	<u>31,590</u>	<u>-</u>	<u>-</u>	<u>31,590</u>
Total capital assets, not being depreciated	<u>333,009,552</u>	<u>26,107,638</u>	<u>(679,869)</u>	<u>358,437,321</u>
Capital assets, being depreciated -				
Buildings	56,509,776	5,727,102	(3,913,711)	58,323,167
Land improvements	89,678,358	-	4,593,580	94,271,938
Furniture and equipment	13,628,705	1,444,654	(73,130)	15,000,229
Motor vehicles	<u>16,720,795</u>	<u>1,400,349</u>	<u>(120,411)</u>	<u>18,000,733</u>
Total capital assets, being depreciated	<u>176,537,634</u>	<u>8,572,105</u>	<u>486,328</u>	<u>185,596,067</u>
Less: accumulated depreciation for -				
Buildings	(27,545,188)	(1,405,767)	457,513	(28,493,442)
Land improvements	(67,002,726)	(3,740,923)	(457,513)	(71,201,162)
Furniture and equipment	(10,945,785)	(855,818)	65,555	(11,736,048)
Motor vehicles	<u>(15,123,021)</u>	<u>(860,771)</u>	<u>118,461</u>	<u>(15,865,331)</u>
Total accumulated depreciation	<u>(120,616,720)</u>	<u>(6,863,279)</u>	<u>184,016</u>	<u>(127,295,983)</u>
Total capital assets, being depreciated, net	<u>55,920,914</u>	<u>1,708,826</u>	<u>670,344</u>	<u>58,300,084</u>
Capital assets, net	<u>\$388,930,466</u>	<u>\$27,816,464</u>	<u>\$ (9,525)</u>	<u>\$416,737,405</u>

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Changes to capital assets consisted of the following:

Additions:	
Capital outlays and equipment purchases	<u>\$34,679,743</u>
Disposals:	
Disposed capital assets, at cost	\$ 162,852
Accumulated depreciation of disposed capital assets	<u>(155,277)</u>
Loss on disposal of capital assets	<u>\$ 7,575</u>
Adjustments	
Net assets transferred-out, at cost	\$ 30,689
Accumulated depreciation of net assets transferred-out	<u>(28,739)</u>
	<u>\$ 1,950</u>

Depreciation expense for the year ended June 30, 2013, was charged to functions of the DLNR as follows:

Economic development	\$ 292,587
Environmental protection	2,319,829
Culture and recreation	3,888,959
Public safety	110,638
Individual rights	66,853
Government-wide support	<u>184,413</u>
	<u>\$6,863,279</u>

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6. LONG-TERM OBLIGATIONS

The changes in long-term obligations were as follows:

	<u>Accrued Vacation</u>	<u>General Obligation Bonds</u>
Balance at July 1, 2012	\$7,799,239	\$3,196,559
Net increase in accrued vacation	123,309	-
Principal payments	<u>-</u>	<u>(509,960)</u>
Balance at June 30, 2013	<u>\$7,922,548</u>	<u>\$2,686,599</u>

The following are portions of the State of Hawaii general obligation bonds allocated to the DLNR under Acts of various Session Laws of Hawaii. These bonds are backed by the full faith, credit and taxing power of the State. Repayment of allocated bond debts are made to the State general fund. The details of these general obligation bonds at June 30, 2013 are as follows:

\$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	\$67,649
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\$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

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\$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

\$ 136,568

\$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

235,425

\$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

198,380

\$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

285,898

\$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

1,265,572

\$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

497,073

\$2,686,599

Interest paid by the DLNR during the fiscal year ended June 30, 2013 approximated \$129,600.

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

Fiscal year ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 424,838	\$111,826	\$ 536,664
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	<u>47,745</u>	<u>2,387</u>	<u>50,132</u>
Total	<u>\$2,686,599</u>	<u>\$742,427</u>	<u>\$3,429,026</u>

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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.

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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. Most covered employees of the hybrid plan are required to contribute 6% 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, 2012, 2011, and 2010 were approximately \$396,380,000, \$388,242,000 and \$398,724,000 respectively. The State contributed 108.6%, 105.3% and 99.6% of its required contribution for those years, respectively. Covered payroll for the fiscal year ended June 30, 2012 was approximately \$2,638,338,000.

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 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.

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

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
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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, 2013 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 \$2,625,000 to the ERS for the fiscal year ended June 30, 2013.

8. COMMITMENTS AND CONTINGENCIES

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

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Notes To The Financial Statements
June 30, 2013

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, 2013 approximated \$94,500 and are reflected as expenditures of the general, special revenue, bond and trust funds. Amounts related to unpaid workers' compensation are reflected in the Statement of Net Position. 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 \$9,537,000 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.

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Notes To The Financial Statements
June 30, 2013

Encumbrances - Commitments for DLNR include encumbrances outstanding as of June 30, 2013 for its major and non-major governmental funds. Encumbrances are included in each fund's appropriate fund balance and are as follows:

<u>Fund</u>	<u>Amount</u>
General Fund	\$ 2,869,343
Federal Grant Fund	8,585,836
Water and Land Development	522,362
Ocean-Based Recreation Fund	1,355,405
Capital Projects Fund	45,090,571
Non-major Governmental Funds	<u>22,082,934</u>
	<u><u>\$80,506,451</u></u>

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, 2013, the DLNR's special revenue funds were charged by the Department of Budget and Finance, State of Hawaii, approximately \$3,744,000 in central service and administration fees. At June 30, 2013, the DLNR owed the Department of Budget and Finance, State of Hawaii, approximately \$736,000 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.

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Notes To The Financial Statements
June 30, 2013

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, 2013, 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, 2013 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
Water and Land Development	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 431,494	\$ 431,494
Ocean-Based Recreation	-	-	-	-	-	25,000	25,000
Capital Projects Fund	-	-	-	368,200	-	-	368,200
Nonmajor Governmental	-	-	28,727	1,459,741	-	12,195,594	13,684,062
Other Transfer, Net; Major and Nonmajor Governmental	-	-	(431,494)	(25,000)	(2,778,832)	(10,156,714)	(13,392,040)
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (402,767)</u>	<u>\$ 1,802,941</u>	<u>\$ (2,778,832)</u>	<u>\$ 2,495,374</u>	<u>\$ 1,116,716</u>

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

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 two interest-free loans to DLNR of up to \$2,000,000 each and another interest-free loan of up to \$1,000,000 whereby DBF would advance funds to DLNR for the sole purpose of paying project costs subject to federal reimbursement. The loans reflected an outstanding balance of \$3,648,107 as of June 30, 2013.

PART III

SUPPLEMENTAL SECTION

DEPARTMENT OF LAND AND NATURAL RESOURCES

STATE OF HAWAII

Combining Balance Sheet -

Nonmajor Governmental Funds

June 30, 2013

	Special Land Development Fund	Land Conservation Fund	Bureau of Conveyances Fund	Commercial Fisheries Fund	Forest Stewardship Fund	Forests and Wildlife Fund	Water Resources Fund	Conservation Resource Enforcement Fund	Natural Area Reserves Fund	Historical Preservation Fund	Subtotal Carried Forward
ASSETS											
Cash and short-term cash investments held in State Treasury	\$11,753,095	\$10,773,954	\$2,780,173	\$750,586	\$2,916,570	\$3,851,173	\$1,578,174	\$473,716	\$ 9,863,138	\$ 63,539	\$44,804,118
Receivables:											
General leases and licenses, net of allowance for losses	97,115	-	-	-	19,142	-	-	-	-	-	116,257
Due from Federal Grant Fund	-	-	-	-	96,468	293,822	-	-	146,618	62,230	599,138
Total assets	<u>\$11,850,210</u>	<u>\$10,773,954</u>	<u>\$2,780,173</u>	<u>\$750,586</u>	<u>\$3,032,180</u>	<u>\$4,144,995</u>	<u>\$1,578,174</u>	<u>\$473,716</u>	<u>\$10,009,756</u>	<u>\$125,769</u>	<u>\$45,519,513</u>
LIABILITIES											
Vouchers and contracts payable	\$ 284,410	\$ 185,020	\$ 112,256	\$ -	\$ 579,856	\$ 728,477	\$ 591	\$ 29,359	\$ 1,177,614	\$ -	\$ 3,097,583
Accrued wages and employee benefits payable	258,232	-	190,112	3,173	39,580	41,562	16,530	50,892	110,237	-	710,318
Due to State Treasury	-	-	-	-	-	-	-	-	-	-	-
Due to other State Agencies	54,356	-	4,364	-	59,707	-	-	12,091	115,783	-	246,301
Deferred revenue	1,112,419	-	-	-	23,767	-	1,591	-	-	-	1,137,777
Security deposits	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	<u>1,709,417</u>	<u>185,020</u>	<u>306,732</u>	<u>3,173</u>	<u>702,910</u>	<u>770,039</u>	<u>18,712</u>	<u>92,342</u>	<u>1,403,634</u>	<u>-</u>	<u>5,191,979</u>
FUND BALANCES											
Restricted	-	-	-	-	-	-	-	-	-	-	-
Committed	10,140,793	10,588,934	2,473,441	747,413	2,329,270	3,374,956	1,559,462	381,374	8,606,122	125,769	40,327,534
Total fund balances	<u>10,140,793</u>	<u>10,588,934</u>	<u>2,473,441</u>	<u>747,413</u>	<u>2,329,270</u>	<u>3,374,956</u>	<u>1,559,462</u>	<u>381,374</u>	<u>8,606,122</u>	<u>125,769</u>	<u>40,327,534</u>
Total liabilities and fund balances	<u>\$11,850,210</u>	<u>\$10,773,954</u>	<u>\$2,780,173</u>	<u>\$750,586</u>	<u>\$3,032,180</u>	<u>\$4,144,995</u>	<u>\$1,578,174</u>	<u>\$473,716</u>	<u>\$10,009,756</u>	<u>\$125,769</u>	<u>\$45,519,513</u>

DEPARTMENT OF LAND AND NATURAL RESOURCES

STATE OF HAWAII

Combining Balance Sheet -

Nonmajor Governmental Funds

June 30, 2013

	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	Flood Study-Makaha Valley	Natural Physical Environment Fund	Recreational Renaissance - Boating	Subtotal Carried Forward
ASSETS												
Cash and short-term cash investments held in State Treasury	\$44,804,118	\$455,639	\$116,005	\$75,489	\$2,138,340	\$69,357	\$1,695,052	\$975,240	\$500,000	\$665,467	\$ -	\$51,494,707
Receivables:												
General leases and licenses, net of allowance for losses	116,257	-	-	-	95,971	-	-	-	-	-	-	212,228
Due from Federal Grant Fund	\$99,138	25,551	-	-	25,406	-	55,757	-	-	-	-	705,852
Total assets	\$45,519,513	\$481,190	\$116,005	\$75,489	\$2,259,717	\$69,357	\$1,750,809	\$975,240	\$500,000	\$665,467	\$ -	\$52,412,787
LIABILITIES												
Vouchers and contracts payable	\$ 3,097,583	\$ 44,232	\$ 39,667	\$ 5,426	\$ 451,222	\$11,719	\$ 94,499	\$ -	\$ 20,710	\$ 14,538	\$ -	\$ 3,779,596
Accrued wages and employee benefits payable	710,318	21,895	8,137	956	110,873	-	48,372	-	-	59,533	-	960,084
Due to State Treasury	-	-	-	-	-	-	-	-	-	-	-	-
Due to other State Agencies	246,301	-	-	-	598	-	-	-	-	-	-	246,899
Deferred revenue	1,137,777	-	-	-	253,314	-	-	-	-	-	-	1,391,091
Security deposits	-	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	5,191,979	66,127	47,804	6,382	816,007	11,719	142,871	-	20,710	74,071	-	6,377,670
FUND BALANCES												
Restricted	-	-	-	-	-	-	-	-	-	-	-	-
Committed	40,327,534	415,063	68,201	69,107	1,443,710	57,638	1,607,938	975,240	479,290	591,396	-	46,035,117
Total fund balances	40,327,534	415,063	68,201	69,107	1,443,710	57,638	1,607,938	975,240	479,290	591,396	-	46,035,117
Total liabilities and fund balances	\$45,519,513	\$481,190	\$116,005	\$75,489	\$2,259,717	\$69,357	\$1,750,809	\$975,240	\$500,000	\$665,467	\$ -	\$52,412,787

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2013

	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	Endangered Species Trust Fund	Assistance in Managing Land Funds	In-Lieu Fee Mitigation Program	Total Other Governmental Fund
ASSETS										
Cash and short-term cash investments held in State Treasury	\$51,494,707	\$39,355	\$5,880,199	\$2,342	\$5,623,271	\$8,728	\$2,259,866	\$239,540	\$8,285,863	\$73,833,871
Receivables:										
General leases and licenses, net of allowance for losses	212,228	-	-	-	-	-	-	-	-	212,228
Due from Federal Grant Fund	705,852	-	-	-	-	-	-	-	-	705,852
Total assets	<u>\$52,412,787</u>	<u>\$39,355</u>	<u>\$5,880,199</u>	<u>\$2,342</u>	<u>\$5,623,271</u>	<u>\$8,728</u>	<u>\$2,259,866</u>	<u>\$239,540</u>	<u>\$8,285,863</u>	<u>\$74,751,951</u>
LIABILITIES										
Vouchers and contracts payable	\$ 3,779,596	\$ -	\$ 57,506	\$ -	\$ 182,558	\$4,335	\$ 301,214	\$ 35,060	\$ 11,682	\$ 4,371,951
Accrued wages and employee benefits payable	960,084	-	-	-	93,547	-	-	-	-	1,053,631
Due to State Treasury	-	-	-	-	-	-	-	-	-	-
Due to other State Agencies	246,899	-	-	-	-	-	-	-	-	246,899
Deferred revenue	1,391,091	-	1,620,596	-	-	-	-	-	-	3,011,687
Security deposits	-	-	-	-	-	-	39,600	-	-	39,600
Total liabilities	<u>6,377,670</u>	<u>-</u>	<u>1,678,102</u>	<u>-</u>	<u>276,105</u>	<u>4,335</u>	<u>340,814</u>	<u>35,060</u>	<u>11,682</u>	<u>8,723,768</u>
FUND BALANCES										
Restricted	-	-	-	-	5,347,166	-	-	-	-	5,347,166
Committed	46,035,117	39,355	4,202,097	2,342	-	4,393	1,919,052	204,480	8,274,181	60,681,017
Total fund balances	<u>46,035,117</u>	<u>39,355</u>	<u>4,202,097</u>	<u>2,342</u>	<u>5,347,166</u>	<u>4,393</u>	<u>1,919,052</u>	<u>204,480</u>	<u>8,274,181</u>	<u>66,028,183</u>
Total liabilities and fund balances	<u>\$52,412,787</u>	<u>\$39,355</u>	<u>\$5,880,199</u>	<u>\$2,342</u>	<u>\$5,623,271</u>	<u>\$8,728</u>	<u>\$2,259,866</u>	<u>\$239,540</u>	<u>\$8,285,863</u>	<u>\$74,751,951</u>

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII

Combining Statement Of Revenues, Expenditures And Changes In Fund Balances -
Nonmajor Governmental Funds
For The Year Ended June 30, 2013

	Special Land Development Fund	Land Conservation Fund	Bureau of Conveyances Fund	Commercial Fisheries Fund	Forest Stewardship 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	13,067,825	-	4,836,283	265,613	509,966	-	57,849	-	550	45,008	18,783,094
Taxes, fuel and others	-	5,464,166	-	-	-	-	-	-	13,674,539	-	19,138,705
Net investment gain	32,138	-	-	-	-	48,472	24,902	4,322	-	1,835	111,669
Other	85,528	-	35	90	219,759	800,625	2,229	249,109	9,565	-	1,366,940
Total revenues	<u>13,185,491</u>	<u>5,464,166</u>	<u>4,836,318</u>	<u>265,703</u>	<u>729,725</u>	<u>849,097</u>	<u>84,980</u>	<u>253,431</u>	<u>13,684,654</u>	<u>46,843</u>	<u>39,400,408</u>
Expenditures											
Current:											
Economic development	-	-	-	177,508	2,723,184	-	-	-	-	-	2,900,692
Environmental protection	-	-	-	-	-	315,322	383,124	1,289,501	7,552,244	-	9,540,191
Culture and recreation	-	-	-	-	-	-	-	-	-	76,381	76,381
Public safety	-	-	-	-	-	-	-	-	-	-	-
Individual rights	-	-	4,177,862	-	-	-	-	-	-	-	4,177,862
Government-wide support	6,408,041	2,070,746	-	-	-	-	-	-	-	-	8,478,787
Total expenditures	<u>6,408,041</u>	<u>2,070,746</u>	<u>4,177,862</u>	<u>177,508</u>	<u>2,723,184</u>	<u>315,322</u>	<u>383,124</u>	<u>1,289,501</u>	<u>7,552,244</u>	<u>76,381</u>	<u>25,173,913</u>
Excess of revenues over (under) expenditures	<u>6,777,450</u>	<u>3,393,420</u>	<u>658,456</u>	<u>88,195</u>	<u>(1,993,459)</u>	<u>533,775</u>	<u>(298,144)</u>	<u>(1,036,070)</u>	<u>6,132,410</u>	<u>(29,538)</u>	<u>14,226,495</u>
Other financing sources (uses)											
Operating transfers in	3,369,147	1,601,468	2,006,201	632,119	3,692,056	4,363,812	1,835,521	1,492,425	-	94,640	19,087,389
Operating transfers out	(9,162,514)	(4,383,364)	(1,928,974)	(662,005)	(1,645,031)	(3,648,541)	(1,369,237)	(178,489)	(3,150,930)	(95,705)	(26,224,790)
Total other financing sources (uses)	<u>(5,793,367)</u>	<u>(2,781,896)</u>	<u>77,227</u>	<u>(29,886)</u>	<u>2,047,025</u>	<u>715,271</u>	<u>466,284</u>	<u>1,313,936</u>	<u>(3,150,930)</u>	<u>(1,065)</u>	<u>(7,137,401)</u>
Net change in fund balances	<u>984,083</u>	<u>611,524</u>	<u>735,683</u>	<u>58,309</u>	<u>53,566</u>	<u>1,249,046</u>	<u>168,140</u>	<u>277,866</u>	<u>2,981,480</u>	<u>(30,603)</u>	<u>7,089,094</u>
Fund balances at July 1, 2012	<u>9,156,710</u>	<u>9,977,410</u>	<u>1,737,758</u>	<u>689,104</u>	<u>2,275,704</u>	<u>2,125,910</u>	<u>1,391,322</u>	<u>103,508</u>	<u>5,624,642</u>	<u>156,372</u>	<u>33,238,440</u>
Fund balances at June 30, 2013	<u>\$10,140,793</u>	<u>\$10,588,934</u>	<u>\$2,473,441</u>	<u>\$747,413</u>	<u>\$2,329,270</u>	<u>\$3,374,956</u>	<u>\$1,559,462</u>	<u>\$381,374</u>	<u>\$8,606,122</u>	<u>\$125,769</u>	<u>\$40,327,534</u>

DEPARTMENT OF LAND AND NATURAL RESOURCES

STATE OF HAWAII

Combining Statement Of Revenues, Expenditures And Changes In Fund Balances -

Nonmajor Governmental Funds

For The Year Ended June 30, 2013

	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	Flood Study-Makaha Valley	Natural Physical Environment Fund	Recreational Renaissance - Boating	Subtotal Carried Forward
Revenues												
Intergovernmental revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
General leases, licenses and permits	18,783,094	58,195	200,150	30,491	4,023,935	-	934,064	-	-	-	-	24,029,929
Taxes, fuel and others	19,138,705	350,000	-	-	900,000	-	-	-	-	-	-	20,388,705
Net investment gain	111,669	11,135	1,787	1,582	46,038	-	18,282	16,047	-	14,345	-	220,885
Other	1,366,940	4,892	-	1,795	5,870	-	9,900	-	-	44,780	-	1,434,177
Total revenues	<u>39,400,408</u>	<u>424,222</u>	<u>201,937</u>	<u>33,868</u>	<u>4,975,843</u>	<u>-</u>	<u>962,246</u>	<u>16,047</u>	<u>-</u>	<u>59,125</u>	<u>-</u>	<u>46,073,696</u>
Expenditures												
Current:												
Economic development	2,900,692	-	-	-	-	-	-	-	-	-	-	2,900,692
Environmental protection	9,540,191	-	-	-	-	-	-	-	-	1,150,036	-	10,690,227
Culture and recreation	76,381	563,920	213,323	43,976	6,022,513	11,719	-	-	-	-	-	6,931,832
Public safety	-	-	-	-	-	-	1,028,200	7,213	20,710	-	-	1,056,123
Individual rights	4,177,862	-	-	-	-	-	-	-	-	-	-	4,177,862
Government-wide support	8,478,787	-	-	-	-	-	-	-	-	-	-	8,478,787
Total expenditures	<u>25,173,913</u>	<u>563,920</u>	<u>213,323</u>	<u>43,976</u>	<u>6,022,513</u>	<u>11,719</u>	<u>1,028,200</u>	<u>7,213</u>	<u>20,710</u>	<u>1,150,036</u>	<u>-</u>	<u>34,235,523</u>
Excess of revenues over (under) expenditures	<u>14,226,495</u>	<u>(139,698)</u>	<u>(11,386)</u>	<u>(10,108)</u>	<u>(1,046,670)</u>	<u>(11,719)</u>	<u>(65,954)</u>	<u>8,834</u>	<u>(20,710)</u>	<u>(1,090,911)</u>	<u>-</u>	<u>11,838,173</u>
Other financing sources (uses)												
Operating transfers in	19,087,389	541,063	74,201	81,486	2,405,529	-	1,253,806	-	500,000	1,739,921	-	25,683,395
Operating transfers out	(26,224,790)	(543,889)	(74,201)	(81,486)	(1,734,334)	(1,326)	(575,375)	-	-	(660,314)	(25,000)	(29,920,715)
Total other financing sources (uses)	<u>(7,137,401)</u>	<u>(2,826)</u>	<u>-</u>	<u>-</u>	<u>671,195</u>	<u>(1,326)</u>	<u>678,431</u>	<u>-</u>	<u>500,000</u>	<u>1,079,607</u>	<u>(25,000)</u>	<u>(4,237,320)</u>
Net change in fund balances	<u>7,089,094</u>	<u>(142,524)</u>	<u>(11,386)</u>	<u>(10,108)</u>	<u>(375,475)</u>	<u>(13,045)</u>	<u>612,477</u>	<u>8,834</u>	<u>479,290</u>	<u>(11,304)</u>	<u>(25,000)</u>	<u>7,600,853</u>
Fund balances at July 1, 2012	<u>33,238,440</u>	<u>557,587</u>	<u>79,587</u>	<u>79,215</u>	<u>1,819,185</u>	<u>70,683</u>	<u>995,461</u>	<u>966,406</u>	<u>-</u>	<u>602,700</u>	<u>25,000</u>	<u>38,434,264</u>
Fund balances at June 30, 2013	<u>\$ 40,327,534</u>	<u>\$ 415,063</u>	<u>\$ 68,201</u>	<u>\$ 69,107</u>	<u>\$ 1,443,710</u>	<u>\$ 57,638</u>	<u>\$ 1,607,938</u>	<u>\$ 975,240</u>	<u>\$ 479,290</u>	<u>\$ 591,396</u>	<u>\$ -</u>	<u>\$ 46,035,117</u>

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Combining Statement Of Revenues, Expenditures And Changes In Fund Balances -
Nonmajor Governmental Funds
For The Year Ended June 30, 2013

	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	Endangered Species Trust Fund	Assistance in Managing Land Fund	In-Lieu Fee Mitigation Program	Total Other Governmental Fund
Revenues										
Intergovernmental revenues	\$ -	\$ -	\$ -	\$ -	\$ 4,750	\$ -	\$ -	\$ -	\$ -	\$ 4,750
General leases, licenses and permits	24,029,929	-	-	-	-	-	35,416	-	-	24,065,345
Taxes, fuel and others	20,388,705	-	-	-	-	-	-	-	-	20,388,705
Net investment gain	220,885	-	21,880	-	148,645	40	7,616	596	17,138	416,800
Other	1,434,177	-	372,936	-	75,053	17,340	1,444,288	277,558	-	3,621,352
Total revenues	46,073,696	-	394,816	-	228,448	17,380	1,487,320	278,154	17,138	48,496,952
Expenditures										
Current:										
Economic development	2,900,692	-	-	-	-	-	-	111,094	58,971	3,070,757
Environmental protection	10,690,227	-	-	-	2,650,807	-	846,272	-	-	14,187,306
Culture and recreation	6,931,832	-	-	-	-	-	-	-	-	6,931,832
Public safety	1,056,123	-	-	-	-	-	-	-	-	1,056,123
Individual rights	4,177,862	-	-	-	-	-	-	-	-	4,177,862
Government-wide support	8,478,787	-	911,188	-	-	21,505	-	-	-	9,411,480
Total expenditures	34,235,523	-	911,188	-	2,650,807	21,505	846,272	111,094	58,971	38,835,360
Excess of revenues over (under) expenditures	11,838,173	-	(516,372)	-	(2,422,359)	(4,125)	641,048	167,060	(41,833)	9,661,592
Other financing sources (uses)										
Operating transfers in	25,683,395	-	5,050,402	2,342	6,533,388	-	1,382,630	2,085	8,316,014	46,970,256
Operating transfers out	(29,920,715)	(2,104)	(2,904,402)	(2,342)	(6,533,388)	-	(1,782,630)	(2,085)	(8,316,014)	(49,463,680)
Total other financing sources (uses)	(4,237,320)	(2,104)	2,146,000	-	-	-	(400,000)	-	-	(2,493,424)
Net change in fund balances	7,600,853	(2,104)	1,629,628	-	(2,422,359)	(4,125)	241,048	167,060	(41,833)	7,168,168
Fund balances at July 1, 2012	38,434,264	41,459	2,572,469	2,342	7,769,525	8,518	1,678,004	37,420	8,316,014	58,860,015
Fund balances at June 30, 2013	\$ 46,035,117	\$39,355	\$ 4,202,097	\$ 2,342	\$ 5,347,166	\$ 4,393	\$ 1,919,052	\$ 204,480	\$8,274,181	\$66,028,183

PART IV

COMPLIANCE AND INTERNAL CONTROL SECTION

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

Board of Land and Natural Resources
State of Hawaii

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Department of Land and Natural Resources, State of Hawaii (Department), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated December 13, 2013.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We noted certain matters that we reported to management of the Department in a separate letter dated December 13, 2013.

This report is intended solely for the information and use of the Department's management, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

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

Honolulu, Hawaii
December 13, 2013