

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

JUNE 30, 2005

PART I
INTRODUCTORY SECTION

October 13, 2005

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, 2005. Our audit was performed in accordance with the terms of our contract with the State of Hawaii and with the requirements of the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

OBJECTIVES OF THE AUDIT

The objectives of our audit were:

1. To provide a basis for an opinion on the fairness of the financial statements of the Department of Land and Natural Resources (Department).
2. To determine whether expenditures and other disbursements have been made and all revenues and other receipts to which the Department is entitled have been collected and accounted for in accordance with the laws, rules and regulations, and policies and procedures of the State of Hawaii and the federal government.
3. To determine whether the Department's internal control is adequate in assuring that there is effective control over the proper accounting of revenues, expenditures, assets, and liabilities.
4. To determine whether the Department has established sufficient internal controls to properly manage federal financial assistance programs and to comply with the applicable laws and regulations.
5. To determine whether the Department has complied with the laws and regulations that may have a material effect on the financial statements and on each major federal financial assistance program of the Department.

SCOPE OF THE AUDIT

Our audit was performed in accordance with auditing standards generally accepted in the United States of America, as prescribed by the American Institute of Certified Public Accountants; *Government Auditing Standards*, issued by the Comptroller General of the United States; and the provisions of OMB Circular A-133. The scope of our audit included an examination of the transactions and accounting records of the Department for the fiscal year ended June 30, 2005.

ORGANIZATION OF THE REPORT

This report is organized into five parts:

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

* * * * *

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

Very truly yours,

Ohata Chun Gaur LLP

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PART II
FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Board of Land and Natural Resources
State of Hawaii

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Department of Land and Natural Resources, State of Hawaii (Department), as of and for the year ended June 30, 2005, which collectively comprise the Department's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Department, as of June 30, 2005, the respective changes in financial position thereof, and the respective budgetary comparison for the general fund and other major special revenue funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

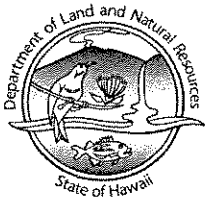
In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2005, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

Ohata Chun Gunn LLP

Honolulu, Hawaii
October 13, 2005



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

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

As management of the Department of Land and Natural Resources (the DLNR), we offer readers of these financial statements this narrative overview and analysis of the financial activities of DLNR for the fiscal year ended June 30, 2005. 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 2005

- The assets of the DLNR exceeded its liabilities at June 30, 2005, by \$316.6 million. Of this amount, \$120.2 million is unrestricted and may be used to meet the DLNR's ongoing obligations.
- As of the close of the current fiscal year, the DLNR's governmental funds reported a combined ending balance of \$126.4 million.
- During the year, the DLNR's total revenue was \$115.1 million and expenses totaled \$89.9 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005

- The *Statement of Activities* presents information showing how the DLNR's net assets changed during the most recent fiscal year.

Fund Financial Statements

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

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

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

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

- **General Fund** - The general fund is the operating fund of the DLNR. It is used to account for all financial activities except those required to be accounted for in another fund. The annual operating budget as authorized by the State Legislature provides the basic framework within which the resources and obligations of the general fund are accounted.
- **Special Revenue Funds** - Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.
- **Capital Project Fund** - The capital project fund is used to account for financial resources used for the acquisition, construction, or improvement of major capital facilities.
- **Expendable Trust Funds:** - Expendable trust funds account for cash collected and expended by the DLNR for designated purposes.
- **Fiduciary Funds:** These funds account for assets held by the DLNR in a trustee or agent capacity for other State departments, individuals and organizations.

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005

Notes to Financial Statements

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

Other information

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

DEPARTMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, changes in net assets may serve over time as a useful indicator of the DLNR's financial position. As of June 30, 2005, the DLNR's total net assets were approximately \$316.6 million.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005

The following is a comparative statement of net assets:

Summary of Statement of Net Assets
(in millions)

	2005	2004	Increase (Decrease)
Cash and short term investments	\$ 154.8	\$ 135.0	\$ 19.8
Receivables	2.7	2.1	0.6
Capital assets	204.3	201.6	2.7
Total assets	<u>\$ 361.8</u>	<u>\$ 338.7</u>	<u>\$ 23.1</u>
Current liabilities	34.2	31.6	2.6
Long-term liabilities	11.0	12.0	(1.0)
Total liabilities	<u>45.2</u>	<u>43.6</u>	<u>1.6</u>
Invested in capital assets, net of related debt	196.4	193.1	3.3
Unrestricted	120.2	102.0	18.2
Total net assets	<u>316.6</u>	<u>295.1</u>	<u>21.5</u>
Total liabilities and net assets	<u>\$ 361.8</u>	<u>\$ 338.7</u>	<u>\$ 23.1</u>

DLNR's net assets increased by \$23.1 million during the fiscal year ended June 30, 2005. Cash and short term investments increased by \$19.8 million. An increase of \$24 million in the Capital Projects Fund was offset by a decrease of \$3.8 million in the Bureau of Conveyances Special Fund. New capital improvement projects included allotments of \$18.2 million for improvements to the Waimanalo Wastewater Treatment Plant and improvements to state parks facilities throughout the state. The decrease in the Bureau of Conveyances Special Fund was primarily the result of transfers to the state general fund of \$5.4 million.

The increase in net assets can also be attributable to an increase in capital assets. Significant additions for FY05 included two federally funded 30-foot patrol vessels for port security, a new computer server for the Bureau of Conveyances and improvements to Iao Valley and Nuuanu Pali Wayside to comply with the provisions of the Americans with Disabilities Act.

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005

Analysis of the DLNR's Operations: The following table provides a summary of the DLNR's operations for the year ended June 30, 2005:

	Changes in Net Assets (in millions)		Increase (Decrease)
	<u>2005</u>	<u>2004</u>	
Program revenue			
Interest, rents and fees	\$ 33.5	\$ 29.9	\$ 3.6
Operating grants and contributions	14.7	17.9	(3.2)
State allotted appropriations, net of lapses	<u>61.2</u>	<u>36.9</u>	<u>24.3</u>
Total revenue	<u>109.4</u>	<u>84.7</u>	<u>24.7</u>
Total expenses	<u>86.5</u>	<u>70.2</u>	<u>16.3</u>
Excess before transfers	22.9	14.5	8.4
Transfers	<u>(1.5)</u>	<u>(.5)</u>	<u>(1.0)</u>
Change in net assets	21.4	14.0	7.4
Net assets – beginning	295.2	287.3	14.1
Adjustment for due to other state agencies	<u> </u>	<u>(6.2)</u>	<u> </u>
Net assets - beginning, restated	<u> </u>	<u>281.1</u>	<u> </u>
Net assets - end of year	<u>\$ 316.6</u>	<u>\$ 295.1</u>	<u>\$ 21.5</u>

Revenues of the DLNR consist of state appropriations, charges for services, program investment income and federal grants. Charges for services consist primarily of rent from leases, licenses and permits from public lands, and fuel taxes. The investment income is from income earned within the program funds that are invested by the State Director of Finance. An increase of \$22.8 million in approved capital improvements projects accounted for the bulk of increase in revenue.

Total expenditures increased by \$16.3 million, primarily the result of increased capital projects and increases of \$5.2 million and \$4.3 million in individual rights and government-wide support expenses respectively. These latter increases were the result of required transfers of \$5.4 from the Bureau of Conveyances Special Fund and \$3 million from the Special Land Development Fund to the state general fund.

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005

Included in FY04, as a net asset adjustment is \$6.2 million payable to other state agencies in repayment of general obligation bonds issued for development of water and irrigation projects. Additional information is provided in Note 11 of the Notes to the Financial Statements.

FINANCIAL ANALYSIS OF THE DEPARTMENT'S GOVERNMENTAL FUNDS

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

Comparison of Balance Sheets
(in millions)

	Assets			Liabilities			Fund Balances		
	2005	2004	Change	2005	2004	Change	2005	2004	Change
General Fund	\$ 3.9	\$ 2.3	\$ 1.6	\$ 1.6	\$ 2.0	\$ (0.4)	\$ 2.3	\$.3	\$ 2.0
Federal Grant Fund	9.4	12.0	(2.6)	14.6	14.5	0.1	(3.0)	(2.5)	(0.5)
Water and Land Development Fund	.5	.5	0.0	6.2	6.2	0.0	(5.6)	(5.7)	0.1
Ocean-Based Recreation Fund	2.2	2.4	(0.2)	3.5	3.3	0.2	(1.2)	(0.9)	(0.3)
Kaho'olawe Rehabilitation Trust Fund	30.9	33.4	(2.5)	0.4	0.3	0.1	30.4	33.1	(2.7)
Capital Projects Fund	79.3	55.3	24.0	2.0	0.7	1.3	77.8	54.6	23.2
Other Funds	28.6	31.1	(2.5)	2.7	2.4	0.3	25.8	28.7	(2.9)
Total	\$ 154.8	\$ 137.0	\$ 17.8	\$ 31.0	\$ 29.4	\$ 1.6	\$ 126.5	\$ 107.6	\$ 18.9

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005

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

	Revenues		Expenditures		Transfers		Lapsed Appropriations		Net Changes in Fund Balances						
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004					
		Change		Change		Change		Change		Change					
General Fund	\$25.6	\$26.1	(\$0.5)	\$22.3	\$24.4	(\$2.1)	(\$5.0)	(\$0.5)	(\$4.5)	(\$0.9)	(\$1.0)	\$0.1	\$2.0	\$0.2	\$1.8
Federal Grant Fund	12.0	13.6	(1.6)	12.5	13.2	(0.7)	0.0	(0.1)	0.1	0.0	0.0	0.0	(0.5)	0.3	(0.8)
Water and Land Development	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ocean-Based Recreation Fund	10.3	9.8	0.5	9.2	7.9	1.3	(1.4)	(1.3)	(0.1)	0.0	0.0	0.0	(0.3)	0.6	(0.9)
Kaho'olawe Rehabilitation Trust Fund	0.9	2.9	(2.0)	3.6	3.2	0.4	0.0	0.0	0.0	0.0	0.0	0.0	(2.7)	(0.3)	(2.4)
Capital Projects Fund	43.6	15.5	28.1	16.0	8.6	7.4	0.7	3.3	(2.6)	(5.1)	(3.7)	(1.4)	23.2	6.6	16.6
Other Funds	22.7	20.8	1.9	26.3	13.9	12.4	0.7	(1.9)	2.6	0.0	0.0	0.0	(2.9)	5.0	(7.9)
Total	\$115.1	\$88.7	\$26.4	\$89.9	\$71.2	\$18.7	(\$5.0)	(\$0.5)	(\$4.5)	(\$6.0)	(\$4.7)	(\$1.3)	\$18.8	\$12.4	\$6.4

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2005

The General Fund is the primary operating fund of the DLNR. At the end of the current fiscal year, there was a \$770 thousand deficit in the unreserved fund balance of the General Fund. The deficit resulted from recognition of expenditures under GAAP in 2005 and will be funded with fiscal year 2006 state allotted appropriations.

The DLNR has three major and several non-major special funds. A fund is categorized as major if the percentages of its assets, liabilities, revenues, or expenditures exceed pre-defined percentages when compared to the corresponding total of all funds in that category. The DLNR's three major special revenue funds are: 1) Federal Grant Fund; 2) Water and Land Development Fund; 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 \$17.3 million from over one hundred individual grants. A Schedule of Expenditures of Federal Awards, which lists the various grants, can be found in the Supplemental Information section.

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

The Ocean-Based Recreation Fund accounts for revenues collected to implement the boating and ocean recreation program. Deposits into this fund include a portion of the liquid fuel tax used by recreational boaters. Revenue was approximately \$10.3 million and expenditures approximately \$9.2 million.

The Kaho'olawe Rehabilitation Trust Fund is DLNR's major expendable trust fund. This fund accounts for moneys received from the federal government for the rehabilitation and environmental restoration of the island of Kaho'olawe. On April 9, 2004, the Kaho'olawe Island Reserve Commission assumed full managerial of the Reserve.

The Capital Projects Fund received approximately \$43.6 million of State allotted appropriations for capital projects. Capital projects funds are used to account for financial resources to acquire or construct major capital facilities. During the current year, approximately \$16 million was expended for capital outlays.

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005

FINANCIAL ANALYSIS OF THE DEPARTMENT'S FIDUCIARY NET ASSETS

These funds account for assets held by the DLNR in a trustee or agent capacity for other State departments, individuals and organizations. There were no significant variances from the prior year.

Summary of Statement of Fiduciary Assets
(in millions)

	2005	2004	Increase (Decrease)
Cash and short term investments	\$ 4.4	\$ 3.1	\$ 1.3
Receivables - General leases and licenses	0.6	0.6	0.0
Total assets	<u>5.0</u>	<u>3.7</u>	<u>1.3</u>
Due to State Treasury	0.4	0.5	(0.1)
Due to other State agencies	0.7	0.7	0.0
Total liabilities	<u>1.1</u>	<u>1.2</u>	<u>(0.1)</u>
Held in trust for Individuals and organizations	<u>3.9</u>	<u>2.5</u>	<u>1.4</u>
Total net assets	<u>\$ 3.9</u>	<u>\$ 2.5</u>	<u>\$ 1.4</u>

BUDGETARY HIGHLIGHTS

General Fund - Actual expenditures for general funded programs were \$1.1 million less than the budgeted expenditures. This was due primarily to savings from vacant positions and other related expenses.

Federal Funds - In anticipation of new and additional federal grant funds in fiscal year 2005, the DLNR requested and received approval from the Governor to increase the ceilings on its federal grant operating appropriations by approximately \$13.3 million. New sources of federal funding included endangered species recovery and restoration, incentives for private landowners to manage and conserve wildlife and habitat, community conservation, land acquisition for wetlands and endangered species, and forest land enhancement projects. In addition, funds to enhance the capability of the State to prevent and respond to incidents of terrorism involving the use of chemical, biological, radiological, nuclear or explosive weapons were received through the Hawaii Department of Defense. 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 amounted to \$14,769. The remaining revenue balance of \$47,889 was received for

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2005

accumulated leave for new staff members and the expenditure of \$58,847 represents the payment of accumulated vacation leave for staff who left the program. This fund's revenue and expenditures are directly related to personnel decisions and therefore cannot be accurately predicted.

Ocean Based Recreation Fund - As reported earlier, this special fund is the primary operating fund for the Division of Boating and Ocean Recreation. Actual revenue collected was \$4.9 million less than budgeted and expenditures were \$5.6 million less than budgeted because the division's operating budget had been approved by the Legislature based on an anticipated revised fee structure that was not implemented in the current fiscal year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

At the end of fiscal year 2005 the DLNR had invested approximately \$204 million (net of accumulated depreciation) in a broad range of capital assets. The inventory of construction-in-progress increased by \$7.5 million.

See Note 5 to the financial statements for a description of capital assets activities for the Fiscal Year Ended June 30, 2005.

	Capital Assets (in millions)		
	2005	2004	Increase (Decrease)
Capital assets not being depreciated			
Land	\$ 138.7	\$ 138.7	\$ 0
Land improvements	0.7	0.7	0
Construction in progress	22.9	15.4	7.5
Total capital assets not being depreciated	162.3	154.8	7.5
Capital assets being depreciated			
Buildings	31.9	30.5	1.4
Land and improvements	70.4	79.2	(8.8)
Furniture and equipment	7.6	6.2	1.4
Vehicles	12.3	12.3	0.0
Total capital assets being depreciated	122.2	128.2	(6.0)
Less total accumulated depreciation	(80.3)	(81.3)	1.0
Total capital assets being depreciated, net	41.9	46.9	(5.0)
Total capital assets, net	\$ 204.2	\$ 201.7	\$ 2.5

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

The accrued vacation balance as of June 30, 2005 was \$6,192,943, an increase of \$515,146 from fiscal year 2004. Beginning with FY05, the value of recorded compensatory time was included with the vacation liability. The portion of the increase due to this inclusion was \$297,463.

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005

The outstanding balance of the State of Hawaii general obligation bonds allocated to the DLNR is approximately \$7.9 million as of June 30, 2005, a decrease of \$576,552 from the amount outstanding as of June 30, 2004. In addition to the payments for bond principal, interest approximating \$371,297 was paid by during the fiscal year ended June 30, 2005. 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, 2005.

Long Term Obligations (in millions)			
	2005	2004	Increase (Decrease)
Accrued vacation	\$ 6.2	\$ 5.7	\$ 0.5
General obligation bonds	7.9	8.5	(0.6)
 Total long term debt	 \$ 14.1	 \$ 14.2	 \$ (0.1)

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

Act 156, SLH 2005 amended Section 173A-5, HRS to establish the Land Conservation Fund and also to establish permanent funding for its operation by increasing the conveyance tax on a sliding scale and dedicating ten percent of the annual proceeds from the tax to the fund. The fund will be used to conserve land for watershed protection, coastal preservation, flood prevention, cultural preservation, agricultural production, scenic resources and open space. The Act took effect on July 1, 2005.

FINANCIAL CONTACT

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

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Statement Of Net Assets
June 30, 2005

ASSETS

Cash and short-term cash investments held in State Treasury	\$154,801,975
Receivables:	
Federal grants	2,606,695
General leases and licenses, net of allowance for losses of \$704,814	108,189
Capital assets:	
Land, improvements, construction-in-progress and other capital assets, net of depreciation	<u>204,268,571</u>
Total assets	<u>\$361,785,430</u>

LIABILITIES

Vouchers and contracts payable	\$ 5,136,410
Accrued wages and employee benefits payable	1,957,719
Due to State Treasury	8,302,509
Due to other State agencies	9,771,225
Deferred revenue	5,928,458
General obligation bonds:	
Due within one year	1,110,000
Due in more than one year	6,807,742
Accrued vacation:	
Due within one year	1,997,463
Due in more than one year	<u>4,195,480</u>
Total liabilities	<u>45,207,006</u>

Commitments and contingencies

NET ASSETS

Invested in capital assets, net of related debt	196,350,829
Unrestricted	<u>120,227,595</u>
Total net assets	<u>316,578,424</u>
Total liabilities and net assets	<u>\$361,785,430</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, 2005

Functions/Programs	Expenses	Interest, Rents and Fees	Program Revenue	Net (Expense) Revenue and Changes in Net Assets
			Operating Grants and Contributions	
Departmental activities:				
Economic development	\$ 3,627,602	\$ 786,512	\$ 1,130,292	\$ (1,710,798)
Environmental protection	35,866,863	6,767,489	8,626,047	(20,473,327)
Culture and recreation	23,137,764	14,062,920	4,645,951	(4,428,893)
Public safety	317,865	-	85,250	(232,615)
Individual rights	8,347,023	4,819,046	-	(3,527,977)
Government-wide support	8,562,068	7,071,423	248,480	(1,242,165)
Capital outlays	<u>6,675,482</u>	-	-	<u>(6,675,482)</u>
Total departmental activities	<u>\$86,534,667</u>	<u>\$33,507,390</u>	<u>\$14,736,020</u>	<u>(38,291,257)</u>
General revenues:				
Appropriations, net of lapsed appropriations				<u>61,188,299</u>
Total general revenues before transfers				61,188,299
Transfers, net (including \$1,009,830 of capital assets transferred out)				<u>(1,474,235)</u>
Total general revenues and transfers				<u>59,714,064</u>
Change in net assets				<u>21,422,807</u>
Net assets at July 1, 2004				<u>295,155,617</u>
Net assets at June 30, 2005				<u>\$316,578,424</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, 2005

	General Fund	Federal Grant Fund	Water and Land Development	Ocean-Based Recreation Fund	Kaho'olawe Rehabilitation Trust Fund	Capital Projects Fund	Other Funds	Total
ASSETS								
Cash and short-term cash investments held in State Treasury	\$3,887,561	\$ 9,403,648	\$ 533,699	\$ 2,209,994	\$30,882,560	\$79,338,895	\$ 28,545,618	\$154,801,975
Receivables:								
Federal grants	-	2,166,768	-	-	-	439,927	-	2,606,695
General leases and licenses, net of allowance of \$704,814	-	-	-	107,861	-	-	328	108,189
Total assets	<u>\$3,887,561</u>	<u>\$11,570,416</u>	<u>\$ 533,699</u>	<u>\$ 2,317,855</u>	<u>\$30,882,560</u>	<u>\$79,778,822</u>	<u>\$28,545,946</u>	<u>\$157,516,859</u>
LIABILITIES								
Vouchers and contracts payable	\$ 688,848	\$ 906,227	\$ -	\$ 224,907	\$ 379,399	\$ 1,915,232	\$ 1,021,797	\$ 5,136,410
Accrued wages and employee benefits payable	922,918	99,587	-	222,067	61,948	101,155	550,044	1,957,719
Due to State Treasury	-	8,302,509	-	-	-	-	-	8,302,509
Due to other State agencies	-	-	6,180,795	2,783,351	-	-	807,079	9,771,225
Deferred revenue	-	5,264,048	-	309,273	-	-	355,137	5,928,458
Total liabilities	<u>1,611,766</u>	<u>14,572,371</u>	<u>6,180,795</u>	<u>3,539,598</u>	<u>441,347</u>	<u>2,016,387</u>	<u>2,734,057</u>	<u>31,096,321</u>
Commitments and contingencies								
FUND BALANCES								
Reserved for:								
Encumbrances	3,045,169	4,775,506	-	697,383	1,868,031	41,257,979	8,814,363	60,458,431
Receivables	-	2,166,768	-	107,861	-	439,927	328	2,714,884
Continuing appropriations	-	-	-	-	-	36,064,529	-	36,064,529
Unexpended Federal awards	-	-	-	-	28,573,182	-	-	28,573,182
Total reserved fund balances	<u>3,045,169</u>	<u>6,942,274</u>	<u>-</u>	<u>805,244</u>	<u>30,441,213</u>	<u>77,762,435</u>	<u>8,814,691</u>	<u>127,811,026</u>
Unreserved:								
Unreserved reported in major funds	(769,374)	(9,944,229)	(5,647,096)	(2,026,987)	-	-	-	(18,387,686)
Unreserved reported in nonmajor - Special revenue funds	-	-	-	-	-	-	16,997,198	16,997,198
Total unreserved fund balances	<u>(769,374)</u>	<u>(9,944,229)</u>	<u>(5,647,096)</u>	<u>(2,026,987)</u>	<u>-</u>	<u>-</u>	<u>16,997,198</u>	<u>(1,390,488)</u>
Total fund balances	<u>2,275,795</u>	<u>(3,001,955)</u>	<u>(5,647,096)</u>	<u>(1,221,743)</u>	<u>30,441,213</u>	<u>77,762,435</u>	<u>25,811,889</u>	<u>126,420,538</u>
Total liabilities and fund balances	<u>\$3,887,561</u>	<u>\$11,570,416</u>	<u>\$ 533,699</u>	<u>\$2,317,855</u>	<u>\$30,882,560</u>	<u>\$79,778,822</u>	<u>\$28,545,946</u>	<u>\$157,516,859</u>

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, 2005

	General Fund	Federal Grant Fund	Water and Land Development	Ocean-Based Recreation Fund	Kaho'olawe Rehabilitation Trust Fund	Capital Projects Fund	Other Funds	Total
Revenues								
Appropriations	\$25,562,671	\$ -	\$ -	\$ -	\$ -	\$41,596,003	\$ -	\$ 67,158,674
Intergovernmental revenues	-	11,896,956	-	-	50,472	2,014,228	-	13,961,656
General leases, licenses and permits	-	17,657	-	8,669,057	-	-	20,344,978	29,031,692
Taxes, fuel and others	-	-	-	1,576,564	-	-	1,143,471	2,720,035
Interest	-	54,640	14,769	42,958	855,431	11,337	776,528	1,755,663
Other	-	2,135	47,889	33,127	5,200	-	401,382	489,733
Total revenues	<u>25,562,671</u>	<u>11,971,388</u>	<u>62,658</u>	<u>10,321,706</u>	<u>911,103</u>	<u>43,621,568</u>	<u>22,666,359</u>	<u>115,117,453</u>
Expenditures								
Current:								
Economic development	1,570,205	1,271,472	58,847	-	-	-	527,168	3,427,692
Environmental protection	13,650,713	8,756,651	-	-	3,587,465	-	5,608,430	31,603,259
Culture and recreation	6,908,416	2,367,141	-	8,276,311	-	-	2,992,720	20,544,588
Public safety	123,723	105,828	-	-	-	-	229,551	229,551
Individual rights	3,331	-	-	-	-	-	8,593,275	8,596,606
Government-wide support	-	-	-	-	-	-	8,540,355	8,540,355
Capital improvement projects	-	-	-	-	-	16,021,031	-	16,021,031
Debt service:								
Principal on long-term debt	-	-	-	576,551	-	-	-	576,551
Interest on long-term debt	-	-	-	371,297	-	-	-	371,297
Total expenditures	<u>22,256,388</u>	<u>12,501,092</u>	<u>58,847</u>	<u>9,224,159</u>	<u>3,587,465</u>	<u>16,021,031</u>	<u>26,261,948</u>	<u>89,910,930</u>
Excess (deficiency) of revenues over (under) expenditures	<u>3,306,283</u>	<u>(529,704)</u>	<u>3,811</u>	<u>1,097,547</u>	<u>(2,676,362)</u>	<u>27,600,537</u>	<u>(3,595,589)</u>	<u>25,206,523</u>
Other financing sources (uses)								
Operating transfers in	-	10,194,798	529,888	8,692,835	30,378,179	3,458,902	15,016,634	68,271,236
Operating transfers out	(469,516)	(10,193,588)	(529,888)	(10,106,016)	(30,378,179)	(2,768,161)	(14,290,293)	(68,735,641)
Total other financing sources (uses)	<u>(469,516)</u>	<u>1,210</u>	<u>-</u>	<u>(1,413,181)</u>	<u>-</u>	<u>690,741</u>	<u>726,341</u>	<u>(464,405)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>2,836,767</u>	<u>(528,494)</u>	<u>3,811</u>	<u>(315,634)</u>	<u>(2,676,362)</u>	<u>28,291,278</u>	<u>(2,869,248)</u>	<u>24,742,118</u>
Lapsed appropriations	<u>(855,228)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(5,115,147)</u>	<u>-</u>	<u>(5,970,375)</u>
Net change in fund balances	<u>1,981,539</u>	<u>(528,494)</u>	<u>3,811</u>	<u>(315,634)</u>	<u>(2,676,362)</u>	<u>23,176,131</u>	<u>(2,869,248)</u>	<u>18,771,743</u>
Fund balances at July 1, 2004	<u>294,256</u>	<u>(2,473,461)</u>	<u>(5,650,907)</u>	<u>(906,109)</u>	<u>33,117,575</u>	<u>54,586,304</u>	<u>28,681,137</u>	<u>107,648,795</u>
Fund balances at June 30, 2005	<u>\$ 2,275,795</u>	<u>\$(3,001,955)</u>	<u>\$(5,647,096)</u>	<u>\$(1,221,743)</u>	<u>\$30,441,213</u>	<u>\$77,762,435</u>	<u>\$25,811,889</u>	<u>\$126,420,538</u>

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

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Statement Of Fiduciary Net Assets
June 30, 2005

	<u>Agency Funds</u>
ASSETS	
Cash and short-term cash investments held in State Treasury	\$4,446,290
Receivables:	
General leases and licenses, net of allowance for losses of \$214,140	<u>555,331</u>
Total assets	<u>5,001,621</u>
LIABILITIES	
Due to State Treasury	443,660
Due to other State agencies	<u>678,976</u>
Total liabilities	<u>1,122,636</u>
NET ASSETS	
Held in trust for:	
Individuals and organizations	<u>3,878,985</u>
Total net assets	<u>\$3,878,985</u>

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

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Reconciliation Of Governmental Funds Balance Sheet To The Statement Of Net Assets
June 30, 2005

	<u>Total Governmental Funds</u>	<u>Long-Term Assets, Liabilities</u>	<u>Reclassifications and Eliminations</u>	<u>Statement of Net Assets</u>
ASSETS				
Cash and short-term cash investments held in State Treasury	\$154,801,975	\$ -	\$ -	\$154,801,975
Receivables:				
Federal grants	2,606,695	-	-	2,606,695
General leases and licenses, net of allowance for losses	108,189	-	-	108,189
Capital assets:				
Land, improvements, construction-in-progress and other capital assets, net of depreciation	<u>-</u>	<u>204,268,571(1)</u>	<u>-</u>	<u>204,268,571</u>
Total assets	<u>\$157,516,859</u>	<u>\$204,268,571</u>	<u>\$ -</u>	<u>\$361,785,430</u>
LIABILITIES				
Vouchers and contracts payable	\$ 5,136,410	\$ -	\$ -	\$ 5,136,410
Accrued wages and employee benefits payable	1,957,719	-	-	1,957,719
Due to State Treasury	8,302,509	-	-	8,302,509
Due to other State agencies	9,771,225	-	-	9,771,225
Deferred revenue	5,928,458	-	-	5,928,458
Bonds payable:				
Due within one year	-	1,110,000 (2)	-	1,110,000
Due in more than one year	-	6,807,742 (2)	-	6,807,742
Accrued vacation:				
Due within one year	-	1,997,463 (3)	-	1,997,463
Due in more than one year	<u>-</u>	<u>4,195,480 (3)</u>	<u>-</u>	<u>4,195,480</u>
Total liabilities	<u>31,096,321</u>	<u>14,110,685</u>	<u>-</u>	<u>45,207,006</u>
FUND BALANCES/NET ASSETS				
Invested in capital assets, net of related debt	-	201,678,913 (1) 11,517,813 (1) (5,748,241)(1) (1,009,831)(1) (2,284,082)(1) (170,624)(1) 284,631 (1) (8)(1) (8,494,293)(2) 576,551 (2)	-	196,350,829
Reserved/Restricted for:				
Encumbrances	60,458,431	-	(60,458,431) (4)	-
Receivables	2,714,884	-	(2,714,884) (4)	-
Continuing appropriations	36,064,529	-	(36,064,529) (4)	-
Unexpended federal awards	28,573,182	-	(28,573,182) (4)	-
Unreserved/Unrestricted	<u>(1,390,488)</u>	<u>(6,192,943)(3)</u>	<u>127,811,026 (4)</u>	<u>120,227,595</u>
Total fund balances/net assets	<u>126,420,538</u>	<u>190,157,886</u>	<u>-</u>	<u>316,578,424</u>
Total liabilities and fund balances/net assets	<u>\$157,516,859</u>	<u>\$204,268,571</u>	<u>\$ -</u>	<u>\$361,785,430</u>

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

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Reconciliation Of Governmental Funds Balance Sheet To The Statement Of Net Assets
June 30, 2005

Total fund balances - governmental funds	\$126,420,538
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Amounts reported for governmental activities in the statement of net assets are different because:

- (1) Capital assets used in governmental activities are not financial resources and therefore, are not reported in the governmental funds. These assets consist of:

Land improvements	\$ 70,404,468
Other capital assets	51,828,696
Accumulated depreciation	(80,331,211)
Land	138,737,878
Other capital assets, not depreciated	719,990
Construction-in-progress	<u>22,908,750</u>

Total capital assets	204,268,571
----------------------	-------------

- | | |
|---|-------------|
| (2) Bonds payable are not reported in the governmental funds. | (7,917,742) |
|---|-------------|

- | | |
|---|-------------|
| (3) Accrued vacation is not reported in the governmental funds. | (6,192,943) |
|---|-------------|

- | | |
|--|----------|
| (4) Reclassify reserved fund balances/net assets to unrestricted fund balances/net assets. | <u>-</u> |
|--|----------|

Total net assets	<u>\$316,578,424</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, 2005

	<u>Total Governmental Funds</u>	<u>Long-Term Assets, Liabilities</u>	<u>Reclassifications and Eliminations</u>	<u>Statement of Activities</u>
Revenues				
Appropriations	\$ 67,158,674	\$ -	\$(5,970,375) (5)	\$ 61,188,299
Intergovernmental revenues	13,961,656	-	-	13,961,656
General leases, licenses and permits	29,031,692	-	-	29,031,692
Taxes, fuel and others	2,720,035	-	-	2,720,035
Interest	1,755,663	-	-	1,755,663
Other	<u>489,733</u>	<u>284,631 (4)</u>	<u>-</u>	<u>774,364</u>
Total revenues	<u>115,117,453</u>	<u>284,631</u>	<u>(5,970,375)</u>	<u>109,431,709</u>
Expenditures				
Economic development	3,427,692	(91,327) (1) 4,028 (1) 254,081 (1) 33,128 (3)	-	3,627,602
Environmental protection	31,603,259	(1,075,592) (1) 2,624,698 (1) 10,664 (1) 2,394,566 (1) 309,268 (3)	-	35,866,863
Culture and recreation	20,544,588	(573,220) (1) (344,644) (1) 159,960 (1) 2,829,936 (1) 149,847 (3)	371,297 (6)	23,137,764
Public safety	229,551	87,458 (1) 856 (3)	-	317,865
Individual rights	8,596,606	(396,653) (1) 103,646 (1) 43,424 (3)	-	8,347,023
Government-wide support	8,540,355	(35,472) (1) 8 (1) 78,554 (1) (21,377) (3)	-	8,562,068
Capital outlays	16,021,031	(9,345,549) (1)	-	6,675,482
Principal on long-term debt	576,551	(576,551) (2)	-	-
Interest on long-term debt	<u>371,297</u>	<u>-</u>	<u>(371,297) (6)</u>	<u>-</u>
Total expenditures	<u>89,910,930</u>	<u>(3,376,263)</u>	<u>-</u>	<u>86,534,667</u>
25,206,523	25,206,523	3,660,894	(5,970,375)	22,897,042
Other financing sources (uses) and lapsed appropriations:				
Net operating transfers	(464,405)	(1,009,830)	-	(1,474,235)
Lapsed appropriations	<u>(5,970,375)</u>	<u>-</u>	<u>5,970,375 (5)</u>	<u>-</u>
Change in fund balances/net assets	<u>\$18,771,743</u>	<u>\$ 2,651,064</u>	<u>\$ -</u>	<u>\$ 21,422,807</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, 2005

Change in fund balances - governmental funds \$18,771,743

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	\$11,517,813
Loss on disposal of equipment	(8)
Depreciation expense	(5,748,241)
Adjustment of costs for depreciation	(2,284,082)
Transfer-out of property and equipment	(1,009,830)
Completed construction projects, less than the capitalization threshold	<u>(170,624)</u>

Excess of capital outlays over depreciation expense 2,305,028

- | | |
|--|---------------------|
| (2) Repayment of bond principal is reported as an expenditure in governmental funds, but the repayment reduces bonds payable in the statement of net assets. | 576,551 |
| (3) The increase in accrued vacation is not reported in governmental funds. | (515,146) |
| (4) The transfer-in of capital assets from the federal government is not reported in governmental funds. | 284,631 |
| (5) Lapsed appropriations are net against appropriations in the statement of activities. | - |
| (6) Reclassify interest on long-term debt to function. | <u>-</u> |
| Change in net assets | <u>\$21,422,807</u> |

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

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Statement Of Revenues And Expenditures - Budget And Actual - General Fund
For The Year Ended June 30, 2005

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Appropriations	\$25,562,671	\$25,562,671	\$25,562,671	\$ -
Expenditures:				
Economic development	1,709,387	1,709,387	1,615,552	93,835
Environmental protection	16,359,430	16,359,430	15,484,748	874,682
Culture and recreation	7,368,414	7,368,414	7,189,243	179,171
Public safety	<u>125,440</u>	<u>125,440</u>	<u>123,832</u>	<u>1,608</u>
Total expenditures	<u>25,562,671</u>	<u>25,562,671</u>	<u>24,413,375</u>	<u>1,149,296</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,149,296</u>	<u>\$ 1,149,296</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, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>(Budgetary Basis)</u>	<u>Variance with</u> <u>Final Budget -</u> <u>Positive</u> <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
<u>Federal Grant Fund</u>				
Revenues	\$23,543,681	\$23,543,681	\$11,971,388	\$(11,572,293)
Expenditures:				
Economic development	4,187,469	4,187,469	1,255,048	2,932,421
Environmental protection	15,458,364	15,458,364	8,728,044	6,730,320
Culture and recreation	3,688,424	3,688,424	2,498,643	1,189,781
Public safety	136,790	136,790	106,100	30,690
Government-wide support	<u>72,634</u>	<u>72,634</u>	<u>-</u>	<u>72,634</u>
Total expenditures	<u>23,543,681</u>	<u>23,543,681</u>	<u>12,587,835</u>	<u>10,955,846</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (616,447)</u>	<u>\$ (616,447)</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, 2005

	<u>Budgeted Amounts</u>	<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>(Budgetary Basis)</u>	<u>Final Budget -</u>
			<u>Positive</u>
			<u>(Negative)</u>
<u>Water and Land Development Fund</u>			
Revenues	\$ 110,000	\$ 62,658	\$ (47,342)
Expenditures:			
Economic development	<u>110,000</u>	<u>58,847</u>	<u>51,153</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ 3,811</u>	<u>\$ 3,811</u>
<u>Ocean-Based Recreation Fund</u>			
Revenues	\$15,207,988	\$10,321,706	\$(4,886,282)
Expenditures:			
Culture and recreation	<u>15,207,988</u>	<u>9,624,722</u>	<u>5,583,266</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ 696,984</u>	<u>\$ 696,984</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, 2005

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.

Other GASB Statements are required to be implemented in conjunction with GASB Statement 34. Therefore, the DLNR has implemented, if applicable, the following GASB Statements: Statement 33 - Accounting and Financial Reporting for Nonexchange Transactions, Statement 36 - Recipient Reporting for Certain Shared Nonexchange Revenues, Statement 37 - Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus and Statement 38 - Certain Financial Statement Note Disclosures.

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, 2005, and for the year then ended.

DEPARTMENT OF LAND AND NATURAL RESOURCES
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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 assets and financial activities.

Departmental and Governmental Fund Financial Statements

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

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

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

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Portions of fund balances are also reserved for the following:

- Encumbrances are recorded obligations in the form of purchase orders or contracts.
- Receivables are amounts owed to DLNR at year-end and are shown as reserved to indicate that portion of the fund balance that is not available for funding current expenditures.
- Continuing appropriations, which include specific legislative appropriations which do not lapse at the end of the year.
- Unexpended federal awards received for the restoration of the Island of Kaho'olawe as outlined in Title X of the Fiscal Year 1994 Department of Defense Appropriations Act, Public Law 103-139, 107 Stat. 1418.

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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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, 2005, has been reported only in the departmental financial statements.

Fund Accounting

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

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

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

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

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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. DLNR's major expendable trust fund is described as follows:

Kaho'olawe Rehabilitation Trust Fund - This fund was established under HRS Title I, Chapter 6K. The primary source of revenues to this fund are monies received from the federal government for the rehabilitation and environmental restoration of the island of Kaho'olawe.

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

Fiduciary Fund

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

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Appropriations

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

Encumbrances

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

Cash and Short-Term Cash Investments

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

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

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

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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 assets or governmental fund balance sheet. However, an employee who retires or leaves government service in good standing with sixty days or more in unused sick leave is entitled to additional service credit in the Employee's Retirement System of the State of Hawaii (ERS). Accumulated sick leave as of June 30, 2005 was \$19,054,202.

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.

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Inventory

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

Capital Assets

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

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

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

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

Grants

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

Use of Estimates

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

DEPARTMENT OF LAND AND NATURAL RESOURCES
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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, 2005, to the general and major special revenue funds' revenues in excess of expenditures presented in conformity with accounting principles generally accepted in the United States of America, is set forth below.

Under Section 78-13 HRS, staff salaries and wages amounting to \$698,327 and \$267,926 in the general and major special revenue funds, respectively, for the period from June 16, 2005 through June 30, 2005, are to be funded with monies budgeted for fiscal 2006. In addition, at June 30, 2005, the DLNR accrued expenditures of \$71,047 and \$118,080 in the general and major special revenue funds, respectively, for certain goods and services received through June 30, 2005, which the DLNR will fund with monies budgeted for fiscal 2006. 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, 2005 in accordance with accounting principles generally accepted in the United States of America.

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In fiscal 2004 under Section 78-13 HRS, salaries and wages for the period from June 16, 2004 to June 30, 2004 were funded with monies budgeted for fiscal 2005. In addition, at June 30, 2004, the DLNR accrued certain salaries and wages for the period prior to June 16, 2004 and certain goods and services received through June 30, 2004, which the DLNR funded with monies budgeted for fiscal 2005. Accordingly, these amounts are included in the statements of revenues and expenditures - budget and actual, for the year ended June 30, 2005. These salaries, wages, goods and services aggregated \$950,905 and \$761,584 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, 2005.

	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	\$1,149,296	\$ (616,447)	\$3,811	\$ 696,984
Current year's appropriations included in reserved for encumbrances at June 30, 2005	2,846,070	3,525,941	-	583,826
Expenditures for liquidation of prior years' encumbrances	(870,614)	(3,460,892)	-	(537,147)
Fiscal 2004 salaries and wages and other expenditures funded by fiscal 2005 budget	950,905	192,207	-	569,377
Fiscal 2005 salaries and wages funded by fiscal 2006 budget under Section 78-13 HRS	(698,327)	(75,490)	-	(192,436)
Fiscal 2005 expenditures funded by fiscal 2006 budget	<u>(71,047)</u>	<u>(95,023)</u>	<u>-</u>	<u>(23,057)</u>
Excess of revenues over (under) expenditures - GAAP basis	<u>\$3,306,283</u>	<u>\$ (529,704)</u>	<u>\$3,811</u>	<u>\$1,097,547</u>

DEPARTMENT OF LAND AND NATURAL RESOURCES
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Notes To The Financial Statements
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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.

As of June 30, 2005, the carrying amount, which approximates the bank balance of the DLNR's cash and short-term cash investments, was \$154,801,975 for its governmental funds and \$4,446,290 for its fiduciary funds.

4. RECEIVABLES

At June 30, 2005, receivables for general leases and licenses for governmental funds consisted of the following:

	Ocean-Based Recreation <u>Fund</u>	Other Funds <u>Funds</u>	<u>Total</u>
Rents, fees and licenses	\$ 809,895	\$ 3,108	\$813,003
Less allowance for doubtful accounts	<u>(702,034)</u>	<u>(2,780)</u>	<u>(704,814)</u>
	<u>\$ 107,861</u>	<u>\$ 328</u>	<u>\$108,189</u>

The Department has installment agreements with certain lessees for accounts receivable of the trust and agency fund which aggregated \$371,171 at June 30, 2005. These agreements provide for interest rates from 0% to 9.75% and payment terms from 1 to 30 years.

DEPARTMENT OF LAND AND NATURAL RESOURCES
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At June 30, 2005, receivables for general leases and licenses for fiduciary funds consisted of the following:

Rents, fees and licenses	\$769,471
Less allowance for doubtful accounts	<u>(214,140)</u>
	<u>\$555,331</u>

5. CAPITAL ASSETS

The changes in capital assets were as follows:

	<u>Beginning Balance July 1, 2004</u>	<u>Additions, Adjustments and Transfers</u>	<u>Disposals, Adjustments and Transfers</u>	<u>Ending Balance June 30, 2005</u>
Capital assets, not being depreciated -				
Land	\$138,688,453	\$ 49,433	\$ (8)	\$138,737,878
Land improvements	688,400	-	-	688,400
Construction-in-progress	15,438,432	9,345,549	(1,875,231)	22,908,750
Other assets	<u>31,590</u>	<u>-</u>	<u>-</u>	<u>31,590</u>
Total capital assets, not being depreciated	<u>154,846,875</u>	<u>9,394,982</u>	<u>(1,875,239)</u>	<u>162,366,618</u>
Capital assets, being depreciated -				
Buildings	30,479,697	1,436,406	-	31,916,103
Land improvements	79,216,438	1,777,286	(10,589,256)	70,404,468
Furniture and equipment	6,190,939	1,484,771	(92,524)	7,583,186
Motor vehicles	<u>12,277,398</u>	<u>834,161</u>	<u>(782,152)</u>	<u>12,329,407</u>
Total capital assets, being depreciated	<u>128,164,472</u>	<u>5,532,624</u>	<u>(11,463,932)</u>	<u>122,233,164</u>
Less: accumulated depreciation for -				
Buildings	(18,393,584)	(1,008,985)	-	(19,402,569)
Land improvements	(48,028,939)	(3,391,585)	6,134,377	(45,286,147)
Furniture and equipment	(4,740,694)	(559,527)	92,524	(5,207,697)
Motor vehicles	<u>(10,169,217)</u>	<u>(1,047,733)</u>	<u>782,152</u>	<u>(10,434,798)</u>
Total accumulated depreciation	<u>(81,332,434)</u>	<u>(6,007,830)</u>	<u>7,009,053</u>	<u>(80,331,211)</u>
Total capital assets, being depreciated, net	<u>46,832,038</u>	<u>(475,206)</u>	<u>(4,454,879)</u>	<u>41,901,953</u>
Capital assets, net	<u>\$201,678,913</u>	<u>\$ 8,919,776</u>	<u>\$(6,330,118)</u>	<u>\$204,268,571</u>

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Changes to capital assets consisted of the following:

Additions:	
Capital outlays and equipment purchases	<u>\$11,517,813</u>
Disposals:	
Disposed capital assets, at cost	\$ 874,684
Accumulated depreciation of disposed capital assets	<u>874,676</u>
Loss on disposal of capital assets	<u>\$ (8)</u>
Adjustments:	
Reduce land and buildings for costs which should not have been capitalized	<u>\$(2,284,082)</u>
Transfer-out of property and equipment	<u>\$(1,009,830)</u>
Other income from transfer-in of equipment from the federal government	<u>\$ 284,631</u>
Expense completed construction contracts, less than the capitalization threshold	<u>\$ (170,624)</u>

Depreciation expense for the year ended June 30, 2005, was charged to functions of the DLNR as follows:

Economic development	\$ 254,081
Environmental protection	2,394,566
Culture and recreation	2,829,936
Public safety	87,458
Individual rights	103,646
Government-wide support	<u>78,554</u>
	<u>\$5,748,241</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, 2004	\$5,677,797	\$8,494,294
Principal payments	-	(568,372)
Net increase in accrued vacation	515,146	-
Bonds refunded	-	(488,675)
New bonds issued	<u>-</u>	<u>480,495</u>
Balance at June 30, 2005	<u>\$6,192,943</u>	<u>\$7,917,742</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, 2005 are as follows:

\$1,867,548 series BW bonds dated March 1, 1992; due in annual installments of \$103,742; final payment on March 1, 2012; partially refunded \$209,259 by the issuance of refunding General Obligation Bonds, series DG, dated June 15, 2005; interest at 5.50% to 6.40% payable semi-annually	\$ 516,937
\$1,648,311 series BZ bonds dated October 1, 1992; due in annual installments of \$103,019 commencing October 1, 2000; final payment on October 1, 2012; interest at 5.00% to 6.00% payable semi-annually	824,156

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\$987,378 series CB refunding bonds dated January 1, 1993; due in annual installments of \$75,945; final payment on January 1, 2008; interest at 4.30% to 5.75% payable semi-annually	\$ 227,835
\$1,852,409 series CC refunding bonds dated February 1, 1993; due in annual installments of \$132,323 through February 1, 2005 and \$132,295 through final payment on February 1, 2009; interest at 3.85% to 7.75% payable semi-annually	396,886
\$1,218,020 series CH bonds dated November 1, 1993; due in annual installments of \$67,673 through November 1, 2010 and \$67,649 through final payment on November 1, 2013; interest at 4.10% to 6.00% payable semi-annually	608,962
\$2,540,742 series CI refunding bonds dated November 1, 1993; due in annual installments of \$158,674; final payment on November 1, 2010; interest at 4.00% to 5.00% payable semi-annually	951,816
\$756,420 series CK bonds dated September 1, 1995; due in annual installments of \$42,019; final payment on September 1, 2005; partially refunded \$42,019 by the issuance of refunding General Obligation Bonds, series DG, dated June 15, 2005; interest at 5.00% payable semi-annually	42,019
\$1,543,701 series CO bonds dated March 1, 1997; due in varying semi-annual installments; final payment on March 1, 2011; interest at 4.50% to 6.00% payable semi-annually	902,088

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<p>\$129,212 series CN bonds dated March 1, 1997; due in varying annual installments commencing March 1, 2002 through final payment on March 1, 2009; partially refunded \$11,135 by the issuance of refunding General Obligation Bonds, series CS, dated April 1, 1998; interest at 5.25% to 6.25% payable semi-annually; partially refunded \$67,711 by the issuance of refunding General Obligation Bonds series DG, dated June 15, 2005; interest at 6.00% to 6.25% payable semi-annually</p>	<p>\$ 28,224</p>
<p>\$214 series CP bonds dated October 1, 1997; due in varying annual installments commencing April 1, 2002 through final payment on April 1, 2021; partially refunded \$102 by the issuance of refunding General Obligation Bonds, series DG, dated June 15, 2005; interest at 5.00% payable semi-annually</p>	<p>97</p>
<p>\$85,000 series CR bonds dated April 1, 1998; due in varying annual installments commencing April 1, 2006 through final payment on April 1, 2011; partially refunded \$63,399 by the issuance of refunding General Obligation Bonds, series DG, dated June 15, 2005; interest at 5.50% to 6.00% payable semi-annually</p>	<p>21,601</p>
<p>\$1,489,544 series CS bonds dated April 1, 1998; due in varying annual installments commencing April 1, 2003 through final payment on April 1, 2009; interest at 5.00% to 5.25% payable semi-annually</p>	<p>922,143</p>
<p>\$576,754 series CT bonds dated September 15, 1999; due in varying annual installments commencing September 1, 2005 through final payment on September 1, 2012; partially refunded \$87,215 by the issuance of refunding General Obligation Bonds, series DG, dated June 15, 2005; interest at 5.25% to 5.625% payable semi-annually</p>	<p>141,016</p>

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<p>\$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</p>	<p>\$ 442,264</p>
<p>\$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</p>	<p>883,319</p>
<p>\$396,612 series DB bonds dated September 16, 2003; due in varying annual installments commencing September 1, 2008 through final payment on September 1, 2016; interest at 5.00% to 5.25% payable semi-annually</p>	<p>396,612</p>
<p>\$131,272 series DC bonds dated September 16, 2003; principal due on September 1, 2005; interest at 3.00% payable semi-annually</p>	<p>131,272</p>
<p>\$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</p>	<p>468,352</p>
<p>\$12,143 series DH bonds dated June 15, 2005; due in one payment on June 1, 2006; interest at 5.00% payable June 1, 2006</p>	<p style="border-top: 1px solid black;">12,143</p>
	<p><u>\$7,917,742</u></p>

Interest paid by the DLNR during the fiscal year ended June 30, 2005, approximated \$371,000.

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Notes To The Financial Statements
June 30, 2005

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year ending June 30,			
2006	\$1,110,000	\$ 359,540	\$1,469,540
2007	1,144,757	295,243	1,440,000
2008	1,178,615	238,318	1,416,933
2009	1,063,777	180,186	1,243,963
2010	732,663	130,095	862,758
2011	828,803	95,553	924,356
2012	518,327	60,758	579,085
2013	416,846	38,046	454,892
2014	327,296	24,715	352,011
2015	273,854	15,688	289,542
2016	146,275	8,121	154,396
2017	113,472	4,429	117,901
2018	63,042	1,451	64,493
2019	5	1	6
2020	5	-	5
2021	<u>5</u>	<u>-</u>	<u>5</u>
Total	<u>\$7,917,742</u>	<u>\$1,452,144</u>	<u>\$9,369,886</u>

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Notes To The Financial Statements
June 30, 2005

7. RETIREMENT BENEFITS

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

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

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

Funding Policy - Most covered employees of the contributory option are required to contribute 7.8% of their salary. Police officers, firefighters, investigators of the departments of the County Prosecuting Attorney and the Attorney General, narcotics enforcement investigators, and public safety investigators are required to contribute 12.2% of their salary. The funding method used to calculate the total employer contribution requirement is the Entry Age Normal Actuarial Cost Method. Under this method, employer contributions to the ERS are comprised of normal cost plus level annual payments required to liquidate the unfunded actuarial liability over the remaining period of 27 years from June 30, 2002.

DEPARTMENT OF LAND AND NATURAL RESOURCES
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June 30, 2005

The State's contribution requirements as of June 30, 2004, 2003, and 2002 were approximately \$181,614,000, \$158,622,000, and \$113,984,000, respectively. The State contributed 100% of its required contributions for those years. Changes in salary growth assumptions and investment earnings pursuant to Act 100, SLH of 1999, decreased the June 30, 2002 required contributions. Act 233, SLH of 2002, increased the 2003 contribution by providing a one-time lump-sum pensioner bonus to retirees who were 70 years and older with at least 20 years of credited service as of June 30, 2002. Also, Act 284, SLH of 2001, provided an increase in the pension benefits effective 2003 to retirees with military service. Covered payroll for the fiscal year ended June 30, 2004 was approximately \$2,021,447,000.

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

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

For employees hired after June 30, 1996, and who retire with fewer than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the retired employees' monthly Medicare or non-Medicare premium. For employees hired after June 30, 1996, and who retire with at least 15 years but fewer than 25 years of service, the State pays 75% of the retired employees' monthly Medicare or non-Medicare premium; for those retiring with over 25 years of service, the State pays the entire health care premium.

There are currently approximately 24,200 state retirees receiving such benefits. Free life insurance coverage for retirees and free dental coverage for dependents under age 19 are also available. Retirees covered by the medical portion of Medicare are eligible to receive reimbursement of the basic medical coverage premium. Contributions are financed on a pay-as-you-go basis. During fiscal 2004, expenditures of \$151,851,000 were recognized for post-retirement health care and life insurance benefits, approximately \$35,136,000 of which is attributable to the Component Units.

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Notes To The Financial Statements
June 30, 2005

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

Cost of Retirement Benefits - The DLNR's general fund share of the retirement system expense for the fiscal year ended June 30, 2005 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 \$1,065,900 to the ERS for the fiscal year ended June 30, 2005. The entire ERS' actuarial determination of the employer contribution requirements were met as of June 30, 2005.

8. COMMITMENTS AND CONTINGENCIES

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

Insurance - Insurance coverage is maintained at the State level. The State is substantially self-insured for all perils including workers' compensation. All payments for workers' compensation are reflected in the respective department or agency's financial statements. Workers' compensation payments made by the DLNR for the fiscal year ended June 30, 2005 approximated \$157,200 and are reflected as expenditures of the general fund. Amounts related to unpaid workers' compensation are reflected in the Statement of Net Assets. Expenditures for other insurance claims are made by the Department of Accounting and General Services, State of Hawaii, and are not reflected in the DLNR's financial statements. Workers' compensation benefit claims reported, as well as incurred but not reported were reviewed at year end. In the opinion of management, the estimated losses from these claims are not material.

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Notes To The Financial Statements
June 30, 2005

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 \$7,763,000 of federal fund reimbursements received or receivable by the DLNR for program expenditures that were paid with previous year's general operating funds and \$539,000 of federal fund reimbursements received by the DLNR for the acquisition or construction of major capital facilities that were paid with the proceeds of general obligation bonds. Under Act 328 of the 1997 Regular Session, such monies are owed to the State Treasury.

Other - At June 30, 2005, substantially all of the reserve for encumbrances in the capital projects fund relates to construction contracts.

9. SMALL BOAT HARBORS AND BOAT RAMPS PROGRAM

During the year ended June 30, 2005, the DLNR's special revenue funds were charged by the Department of Transportation, State of Hawaii, approximately \$96,000 for services rendered during the year in connection with the Small Boat Harbors and Boat Ramps Program. At June 30, 2005, the DLNR owed the Department of Transportation, State of Hawaii, approximately \$70,000 for these services.

10. CENTRAL SERVICE AND ADMINISTRATION FEES

During the fiscal year ended June 30, 2005, the DLNR's special revenue funds were charged by the Department of Budget and Finance, State of Hawaii, approximately \$2,088,000 in central service and administration fees. At June 30, 2005, the DLNR owed the Department of Budget and Finance, State of Hawaii, approximately \$1,311,000 in unpaid fees.

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Notes To The Financial Statements
June 30, 2005

11. DUE TO OTHER STATE AGENCIES

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

In addition, DLNR receives revenue from numerous leases of State lands and properties. These include leases of ceded lands which are held in trust for native Hawaiians by the State. The State is required to pay 20% of revenues generated from ceded lands to the Office of Hawaiian Affairs (OHA), State of Hawaii, which administers and manages the proceeds related to the ceded lands. DLNR accounts for the revenues derived from ceded lands and determines the amounts due which are paid to OHA.

During the year ended June 30, 2005, DLNR discovered that it may have been incorrectly calculating ceded land revenues related to its harbors. The result is that DLNR may have been underpaying OHA for amounts due on such revenue. As of June 30, 2005, DLNR has recorded a liability in the Ocean-Based Recreation Fund of approximately \$2,154,700 for amounts due to OHA from revenues derived from its harbors. DLNR will be investigating this matter to determine the amount, if any, of the additional liability due to OHA.

PART III
SUPPLEMENTAL SECTION

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2005

	Bureau of Conveyances Fund	Special Land Development Fund	Commercial Fisheries Fund	Forest Stewardship Fund	Aquatic Resources Fund	Forests and Wildlife Fund	Water Resources Fund	Conservation Resource Enforcement Fund	Natural Area Reserves Fund	Historical Preservation Fund	Subtotal Carried Forward
ASSETS											
Cash and short-term cash investments held in State Treasury	\$2,529,592	\$7,848,905	\$434,952	\$582,737	\$79,142	\$1,041,374	\$745,079	\$ 53,239	\$8,332,847	\$1,435	\$21,649,302
Receivables:											
General leases and licenses, net of allowance for losses	-	-	-	-	-	-	-	-	-	-	-
Total assets	<u>\$2,529,592</u>	<u>\$7,848,905</u>	<u>\$434,952</u>	<u>\$582,737</u>	<u>\$79,142</u>	<u>\$1,041,374</u>	<u>\$745,079</u>	<u>\$ 53,239</u>	<u>\$8,332,847</u>	<u>\$1,435</u>	<u>\$21,649,302</u>
LIABILITIES											
Vouchers and contracts payable	\$ 16,549	\$ 488,485	\$ 18,861	\$ 43,194	\$ -	\$ 76,653	\$ 471	\$ 24,978	\$ 179,529	\$ -	\$ 848,720
Accrued wages and employee benefits payable	145,462	167,019	1,262	-	-	8,778	6,703	126,751	-	9,024	464,999
Due to other State agencies	324,731	97,943	-	-	-	-	-	-	242,022	-	664,696
Deferred revenue	-	241,048	-	-	-	-	4,623	-	-	-	245,671
Total liabilities	<u>486,742</u>	<u>994,495</u>	<u>20,123</u>	<u>43,194</u>	<u>-</u>	<u>85,431</u>	<u>11,797</u>	<u>151,729</u>	<u>421,551</u>	<u>9,024</u>	<u>2,224,086</u>
FUND BALANCES											
Reserved for:											
Encumbrances	174,514	2,113,323	184,032	195,709	-	1,330,078	333,130	69,897	1,270,021	-	5,670,704
Receivables	-	-	-	-	-	-	-	-	-	-	-
Total reserved fund balances	<u>174,514</u>	<u>2,113,323</u>	<u>184,032</u>	<u>195,709</u>	<u>-</u>	<u>1,330,078</u>	<u>333,130</u>	<u>69,897</u>	<u>1,270,021</u>	<u>-</u>	<u>5,670,704</u>
Unreserved:											
Unreserved reported in nonmajor - Special revenue funds	1,868,336	4,741,087	230,797	343,834	79,142	(374,135)	400,152	(168,387)	6,641,275	(7,589)	13,754,512
Total unreserved fund balances	<u>1,868,336</u>	<u>4,741,087</u>	<u>230,797</u>	<u>343,834</u>	<u>79,142</u>	<u>(374,135)</u>	<u>400,152</u>	<u>(168,387)</u>	<u>6,641,275</u>	<u>(7,589)</u>	<u>13,754,512</u>
Total fund balances	<u>2,042,850</u>	<u>6,854,410</u>	<u>414,829</u>	<u>539,543</u>	<u>79,142</u>	<u>955,943</u>	<u>733,282</u>	<u>(98,490)</u>	<u>7,911,296</u>	<u>(7,589)</u>	<u>19,425,216</u>
Total liabilities and fund balances	<u>\$2,529,592</u>	<u>\$7,848,905</u>	<u>\$434,952</u>	<u>\$582,737</u>	<u>\$79,142</u>	<u>\$1,041,374</u>	<u>\$745,079</u>	<u>\$ 53,239</u>	<u>\$8,332,847</u>	<u>\$1,435</u>	<u>\$21,649,302</u>

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2005

	Subtotal Brought Forward	Na Ala Hele Park Development Fund	Wildlife Revolving Fund	Sport-Fish Restoration Fund	Park Development Operations Fund	State Parks Fund	Natural Physical Environment Fund	Preservation of Endangered Plants Fund	Donations, Gifts and Grants Fund	OHA Kikakakoeka Trust Fund	Endangered Species Trust Fund	Total Other Governmental Funds
ASSETS												
Cash and short-term cash investments held in State Treasury	\$21,649,302	\$630,730	\$427,503	\$76,211	\$36,566	\$4,332,878	\$20,024	\$3,164	\$10,111	\$1,270,491	\$88,638	\$28,545,618
Receivables:												
General leases and licenses, net of allowance for losses	-	-	-	-	-	328	-	-	-	-	-	328
Total assets	<u>\$21,649,302</u>	<u>\$630,730</u>	<u>\$427,503</u>	<u>\$76,211</u>	<u>\$36,566</u>	<u>\$4,333,206</u>	<u>\$20,024</u>	<u>\$3,164</u>	<u>\$10,111</u>	<u>\$1,270,491</u>	<u>\$88,638</u>	<u>\$28,545,946</u>
LIABILITIES												
Vouchers and contracts payable	\$ 848,720	\$ 3,841	\$ 20,713	\$ 721	\$10,295	\$ 137,507	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,021,797
Accrued wages and employee benefits payable	464,999	21,754	7,562	-	-	48,072	7,657	-	-	-	-	550,044
Due to other State agencies	664,696	-	-	-	-	142,383	-	-	-	-	-	807,079
Deferred revenue	245,671	-	-	-	-	109,466	-	-	-	-	-	355,137
Total liabilities	<u>2,224,086</u>	<u>25,595</u>	<u>28,275</u>	<u>721</u>	<u>10,295</u>	<u>437,428</u>	<u>7,657</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,734,057</u>
FUND BALANCES												
Reserved for:												
Encumbrances	5,670,704	24,497	135,454	-	23,604	1,805,836	-	-	-	1,154,268	-	8,814,363
Receivables	-	-	-	-	-	328	-	-	-	-	-	328
Total reserved fund balances	<u>5,670,704</u>	<u>24,497</u>	<u>135,454</u>	<u>-</u>	<u>23,604</u>	<u>1,806,164</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,154,268</u>	<u>-</u>	<u>8,814,691</u>
Unreserved:												
Unreserved reported in nonmajor - Special revenue funds	13,754,512	580,638	263,774	75,490	2,667	2,089,614	12,367	3,164	10,111	116,223	88,638	16,997,198
Total unreserved fund balances	<u>13,754,512</u>	<u>580,638</u>	<u>263,774</u>	<u>75,490</u>	<u>2,667</u>	<u>2,089,614</u>	<u>12,367</u>	<u>3,164</u>	<u>10,111</u>	<u>116,223</u>	<u>88,638</u>	<u>16,997,198</u>
Total fund balances	<u>19,425,216</u>	<u>605,135</u>	<u>399,228</u>	<u>75,490</u>	<u>26,271</u>	<u>3,895,778</u>	<u>12,367</u>	<u>3,164</u>	<u>10,111</u>	<u>1,270,491</u>	<u>88,638</u>	<u>25,811,889</u>
Total liabilities and fund balances	<u>\$21,649,302</u>	<u>\$630,730</u>	<u>\$427,503</u>	<u>\$76,211</u>	<u>\$36,566</u>	<u>\$4,333,206</u>	<u>\$20,024</u>	<u>\$3,164</u>	<u>\$10,111</u>	<u>\$1,270,491</u>	<u>\$88,638</u>	<u>\$28,545,946</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, 2005

	Bureau of Conveyances Fund	Special Land Development Fund	Commercial Fisheries Fund	Forest Stewardship Fund	Aquatic Resources Fund	Forests and Wildlife Fund	Water Resources Fund	Conservation Resource Enforcement Fund	Natural Area Reserves Fund	Historical Preservation Fund	Subtotal Carried Forward
Revenues											
General leases, licenses and permits	\$4,763,943	\$6,761,336	\$226,646	\$538,095	\$ -	\$ 94	\$ 59,124	\$ 50	\$5,579,510	\$ 78,488	\$18,007,286
Taxes, fuel and others	-	-	-	-	-	-	-	-	-	-	-
Interest	55,103	310,087	11,187	10,584	2,095	36,284	20,524	740	160,757	28	607,389
Other	-	248,479	-	1,980	-	10,947	3,050	27,915	-	2,660	295,031
Total revenues	<u>4,819,046</u>	<u>7,319,902</u>	<u>237,833</u>	<u>550,659</u>	<u>2,095</u>	<u>47,325</u>	<u>82,698</u>	<u>28,705</u>	<u>5,740,267</u>	<u>81,176</u>	<u>18,909,706</u>
Expenditures											
Current:											
Economic development	-	-	195,333	331,835	-	-	-	-	-	-	527,168
Environmental protection	-	-	-	-	-	627,667	208,517	1,350,341	3,047,509	-	5,234,034
Culture and recreation	-	-	-	-	-	-	-	-	-	104,756	104,756
Individual rights	8,593,275	-	-	-	-	-	-	-	-	-	8,593,275
Government-wide support	-	8,377,514	-	-	-	-	-	-	-	-	8,377,514
Total expenditures	<u>8,593,275</u>	<u>8,377,514</u>	<u>195,333</u>	<u>331,835</u>	<u>-</u>	<u>627,667</u>	<u>208,517</u>	<u>1,350,341</u>	<u>3,047,509</u>	<u>104,756</u>	<u>22,836,747</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(3,774,229)</u>	<u>(1,057,612)</u>	<u>42,500</u>	<u>218,824</u>	<u>2,095</u>	<u>(580,342)</u>	<u>(125,819)</u>	<u>(1,321,636)</u>	<u>2,692,758</u>	<u>(23,580)</u>	<u>(3,927,041)</u>
Other financing sources (uses)											
Operating sources (uses)	500,000	2,511,312	238,881	205,079	-	1,390,492	537,439	1,275,336	4,360,719	21,388	11,040,646
Operating transfers in	(500,000)	(2,733,372)	(238,881)	(205,079)	-	(282,967)	(477,439)	(336)	(6,360,719)	(21,388)	(10,820,181)
Operating transfers out	-	(222,060)	-	-	-	1,107,525	60,000	1,275,000	(2,000,000)	-	220,465
Total other financing sources (uses)	-	(1,279,672)	42,500	218,824	2,095	527,183	(65,819)	(46,636)	692,758	(23,580)	(3,706,576)
Net change in fund balances	<u>5,817,079</u>	<u>8,134,082</u>	<u>372,329</u>	<u>320,719</u>	<u>77,047</u>	<u>428,760</u>	<u>799,101</u>	<u>(51,854)</u>	<u>7,218,538</u>	<u>15,991</u>	<u>23,131,792</u>
Fund balances at July 1, 2004											
Fund balances at June 30, 2005	<u>\$2,042,850</u>	<u>\$6,854,410</u>	<u>\$414,829</u>	<u>\$539,543</u>	<u>\$79,142</u>	<u>\$ 955,943</u>	<u>\$733,282</u>	<u>\$ (98,490)</u>	<u>\$7,911,296</u>	<u>\$ (7,589)</u>	<u>\$19,425,216</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, 2005

	Subtotal Brought Forward	Na Ala Hele Park Development Fund	Wildlife Revolving Fund	Sport-Fish Restoration Fund	Park Development and Operations Fund	State Parks Fund	Natural Physical Environment Fund	Preservation of Endangered Plants Fund	Donations, Gifts and Grants Fund	OHA Kikakakeokea Trust Fund	Endangered Species Trust Fund	Total Other Governmental Funds
Revenues												
General leases, licenses and permits	\$18,007,286	\$117,733	\$310,514	\$32,685	\$ -	\$1,876,760	\$ -	\$ -	\$ -	\$ -	\$ -	\$20,344,978
Taxes, fuel and others	-	243,471	-	-	-	900,000	-	-	-	-	-	1,143,471
Interest	607,389	13,924	13,896	1,690	-	104,319	-	-	-	35,310	-	776,528
Other	295,031	1,939	525	1,875	-	374	-	-	13,000	-	88,638	401,382
Total revenues	18,909,706	377,067	324,935	36,250	-	\$2,881,453	-	-	13,000	35,310	88,638	22,666,359
Expenditures												
Current:												
Economic development	527,168	-	-	-	-	-	-	-	-	-	-	527,168
Environmental protection	5,234,034	-	-	-	-	-	317,896	-	56,500	-	-	5,608,430
Culture and recreation	104,756	324,308	354,313	1,609	576,452	1,631,282	-	-	-	-	-	2,992,720
Individual rights	8,593,275	-	-	-	-	-	-	-	-	-	-	8,593,275
Government-wide support	8,377,514	-	-	-	-	-	-	-	-	162,841	-	8,540,355
Total expenditures	22,836,747	324,308	354,313	1,609	576,452	1,631,282	317,896	-	56,500	162,841	-	26,261,948
Excess (deficiency) of revenues over (under) expenditures	(3,927,041)	52,759	(29,378)	34,641	(576,452)	1,250,171	(317,896)	-	(43,500)	(127,531)	88,638	(3,595,589)
Other financing sources (uses)												
Operating transfers in	11,040,646	535,323	395,911	41,902	584,164	1,908,706	337,684	3,164	53,611	115,523	-	15,016,634
Operating transfers out	(10,820,181)	(335,323)	(395,911)	(41,902)	(89,624)	(2,431,237)	(3,817)	(3,164)	(53,611)	(115,523)	-	(14,290,293)
Total other financing sources (uses)	220,465	200,000	-	-	494,540	(522,531)	333,867	-	-	-	-	726,341
Net change in fund balances	(3,706,576)	252,759	(29,378)	34,641	(81,912)	727,640	15,971	-	(43,500)	(127,531)	88,638	(2,869,248)
Fund balances at July 1, 2004	23,131,792	352,376	428,606	40,849	108,183	3,168,138	(3,604)	3,164	53,611	1,398,022	-	28,681,137
Fund balances at June 30, 2005	\$19,425,216	\$605,135	\$399,228	\$75,490	\$ 26,271	\$3,895,778	\$ 12,367	\$ 3,164	\$10,111	\$1,270,491	\$88,638	\$25,811,889

**DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005**

Federal Grantor/ Pass-through Grantor/Program Title	Federal CFDA Number	Grant Number	Grant Award	Federal Expenditures
<u>U.S. Department of Agriculture</u>				
Animal and Plant Health Inspection Service - Surveillance and Management Relative to Chronic Wasting Disease	10.025	03-9715-1068-CA	\$ 44,600	\$ 2,855
Managing Chronic Wasting Disease in Free- Ranging Cervids	10.025	04-9715-1257-CA	53,571	18,454
			<u>98,171</u>	<u>21,309</u>
Forest Service -				
Cooperative Forestry Assistance	10.664	01-DG-11052000-150	182,450	-
Urban and Community Forestry	10.664	02-DG-11052021-126	300,000	18,446
Cooperative Forestry Assistance- Prevention and Suppression	10.664	02-DG-11052021-139	400,000	-
Cooperative Forestry Assistance- State Fire Assistance, Volunteer Fire Assistance	10.664	02-DG-11052012-149	500,000	-
Cooperative Forest Health Protection	10.664	03-DG-11052021-054	50,000	18,054
Wildland Urban Interface	10.664	03-DG-11052012-045	227,672	28,235
Urban and Community Forestry	10.664	03-DG-11052021-056	400,000	181,039
Cooperative Forestry Assistance- Forest Legacy	10.664	03-DG-11052021-069	5,000	100
Cooperative Forestry Assistance- Forest Stewardship Program	10.664	03-DG-11052021-070	102,000	100
Cooperative Forestry Assistance- Conservation Education	10.664	03-DG-11052021-072	15,000	9,729
Cooperative Forestry Assistance- Prevention and Suppression	10.664	03-DG-11052021-084	410,000	115,536
Cooperative Forestry Assistance- State Fire Assistance, Volunteer Fire Assistance	10.664	03-DG-11052012-106	500,000	200,000
Cooperative Forestry Assistance- Forest Land Enhancement Program	10.664	03-DG-11052021-119	100,000	37,584
Conservation Education	10.664	04-DG-11052021-059	15,000	7,303
Forest Health Protection, Prevention and Suppression	10.664	04-DG-11052021-089	547,000	241,114
Cooperative Forest Health Protection	10.664	04-DG-11052021-090	122,000	74,137
Wildland Urban Interface	10.664	04-DG-11052012-093	246,750	38,043
Cooperative Fire Protection Program	10.664	04-DG-11052012-094	664,000	349,240
			<u>4,786,872</u>	<u>1,318,660</u>
Hawaii Forestry and Communities Initiative	10.672	02-DG-11052021-162	250,000	100
Rural Development, Forestry and Communities- Utilization Marketing	10.672	03-DG-11052021-071	50,000	46,422
Rural Development Through Forestry	10.672	04-DG-11052021-060	27,600	1,272
			<u>327,600</u>	<u>47,794</u>
Urban & Community Forestry	10-675	04-DG-11052021-091	428,000	116,734

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

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

Federal Grantor/ Pass-through Grantor/Program Title	Federal CFDA Number	Grant Number	Grant Award	Federal Expenditures
<u>U.S. Department of Agriculture (Continued)</u>				
Forest Legacy Program	10-676	04-DG-11052021-048	\$ 10,000	\$ 10,000
Forest Stewardship Program	10-678	04-DG-11052021-088	197,600	102,000
Total U.S. Department of Agriculture			<u>5,848,243</u>	<u>1,616,497</u>
<u>U.S. Department of Commerce</u>				
National Oceanic and Atmospheric Administration - Direct Programs:				
Interjurisdictional Fisheries Act	11.407	NA96FI0132	105,791	23,548
Maintenance of Web-Based Internet Commercial Marine Licensing System for the State of Hawaii	11.407	NA03NMF4070142	54,550	19,146
Maintenance of Web-Based Internet Commercial Marine Licensing System for the State of Hawaii	11.407	NA04NMF4070127	47,991	11,420
			<u>208,332</u>	<u>54,114</u>
Hawaii Coral Reef Management Program	11.419	NA-16OZ2441	360,000	90,586
Hawaii Coral Reef Management Program	11.419	NA03NOS4190210	347,200	105,794
Hawaii Coral Reef Management Program	11.419	NA04NOS4190111	450,000	22,030
Acquisition of 1,129 Acres on Oahu Known as Pupukea-Paumalu	11.419	NA04NOS4190196	1,978,955	-
			<u>3,136,155</u>	<u>218,410</u>
Hawaii Coral Reef Monitoring	11.426	NA-170A1535	179,760	40,610
Hawaii Coral Reef Monitoring Program	11.426	NA03NOS4260112	115,000	58,052
Coral Reef Monitoring	11.426	NA04NOS4260296	108,000	4,827
			<u>402,760</u>	<u>103,489</u>
Northwest Hawaiian Islands Coral Reef Ecosystem Reserve	11.429	MOA-2001-675	830,000	190,427
An Investigation of the Current Status of the Hawaiian Black Coral Fishery Using Historical and New Perspectives	11.430	NA04OAR3000141	51,240	33,968
Collect and Provide Fisheries Data Under the Western Pacific Fisheries Information Network	11.437	NA03NMF4370134	152,000	10,678
Collect and Provide Fisheries Data Under the Hawaii Marine Recreational Fishing Survey	11.437	NA04NMF4370068	290,000	202,183
Collect and Provide Fisheries Data Under the Western Pacific Fisheries Information Network	11.437	NA04NMF4370142	234,000	71,059
			<u>676,000</u>	<u>283,920</u>

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DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

Federal Grantor/ Pass-through Grantor/Program Title	Federal CFDA Number	Grant Number	Grant Award	Federal Expenditures
<u>U.S. Department of Commerce (Continued)</u>				
Fisheries Disaster Relief Program	11.452	NA03NMF4520452	\$ 5,000,000	\$ 59,200
Subtotal Direct Programs			<u>10,304,487</u>	<u>943,528</u>
Pass-Through Programs From:				
The Department of Business, Economic Development and Tourism, State of Hawaii - Coral Reef Management	11.419	SOH-DBEDT 49148	268,000	-
Comprehensive Plan to Prevent the Introduction and Dispersal of Alien Aquatic Organisms	11.419	SOH-DBEDT 51678	55,205	46,680
			<u>323,205</u>	<u>46,680</u>
Subtotal Pass-Through Programs			<u>323,205</u>	<u>46,680</u>
Total U.S. Department of Commerce			<u>10,627,692</u>	<u>990,208</u>
<u>U.S. Department of Defense</u>				
U.S. Department of the Navy - Kaho'olawe Rehabilitation Trust	12.UNK	12.UNK	44,014,410	3,574,616
Total U.S. Department of Defense			<u>44,014,410</u>	<u>3,574,616</u>
<u>U.S. Department of the Interior</u>				
Fish and Wildlife Service -				
Kahului Boat Ramp (Widen Access Road Entrance)	15.605	F-19-B-27	270,000	-
Kikiaola Small Boat Harbor, Kauai - Replace Loading Dock & Repair Boat Ramp	15.605	F-19-B-28	262,500	-
Statewide Freshwater Fisheries Development	15.605	F-11-D-28	261,000	8,659
Statewide Marine Fisheries Development	15.605	F-12-D-28	662,500	30,648
Coordination of Statewide Sports Fish Restoration Program	15.605	F-13-C-28	33,750	-
Freshwater Fisheries Research & Surveys	15.605	F-14-R-28	302,250	62,760
Statewide Freshwater Fisheries Technical Guidance	15.605	F-15-T-28	24,000	1,609
Statewide Marine Fisheries Technical Guidance	15.605	F-16-T-28	60,000	6,180
Statewide Marine Fisheries Research & Surveys	15.605	F-17-R-28	648,000	122,627
Aquatic Resources Education	15.605	F-18-AE-17	180,000	100
Construct Loading Dock "A" for Kahului Boat Launch Ramp Facility, Kahului, Maui	15.605	F-19-B-32	825,000	824,900

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DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

Federal Grantor/ Pass-through Grantor/Program Title	Federal CFDA Number	Grant Number	Grant Award	Federal Expenditures
<u>U.S. Department of the Interior (Continued)</u>				
Replacement of Comfort Station at Heeia-Kea Small Boat Harbor	15.605	F-19-B-33	\$ 187,500	\$ 156,579
Design Phase for Maintenance Dredging and Revetment Repair at Waikaea Boat Ramp	15.605	F-19-B-34	45,000	14,408
Pohoiki Boat Ramp and Loading Dock	15.605	F-19-B-35	97,500	36,519
Statewide Freshwater Fisheries Development	15.605	F-11-D-29	261,000	234,642
Statewide Marine Fisheries Development	15.605	F-12-D-29	668,875	532,315
Coordination of Statewide Sports Fish Restoration Program	15.605	F-13-C-29	35,250	35,150
Statewide Freshwater Fisheries Technical Guidance	15.605	F-15-T-29	24,000	23,055
Statewide Marine Fisheries Technical Guidance	15.605	F-16-T-29	60,000	57,889
Freshwater Fisheries Research & Surveys	15.605	F-14-R-29	302,250	238,246
Revetment Repair at Waikaea Boat Ramp	15.605	F-17-R-29	681,750	387,213
Aquatic Resources Education	15.605	F-18-AE-18	180,000	179,900
Manele Small Boat Harbor Maintenance Dredging	15.605	F-19-B-37	21,000	-
Loading Dock Replacement at the Waianae Small Boat Harbor, Waianae, Oahu	15.605	F-19-B-36	60,000	-
Waikaea Boat Ramp Dredging Revetment Repair	15.605	F-19-B-38	45,000	-
			6,198,125	2,953,399
Hawaii Year One Aquatic Invasive Species	15.608	1220-04-G029	143,326	21,075
Updating Hunter Education Classes	15.608	1220-04-G017	30,000	-
			173,326	21,075
Conservation Education Facility, Waimea	15.611	FW-1-DE-1	857,000	30,534
Hawaii Hunter Education Program	15.611	W-21-HS-27	669,448	62,008
Hawaii Game Management Program	15.611	W-22-G-8	609,897	38,381
Hawaii Game Management Program	15.611	W-22-G-9	610,348	151,357
Hawaii Non-Game Management Program	15.611	W-23-NG-9	213,604	22,401
Hawaii Non-Game Management Program	15.611	W-23-NG-10	215,158	201,750
Hawaii Game Management Program	15.611	W-22-G-10	610,498	419,455
Hawaii Hunter Education Program	15.611	W-21-HS-28	408,375	203,053
Conservation Management - Kauai Hunting Units	15.611	1220-04-G018	77,500	5,885
Mokihana Ridge - Waialae Trail Project	15.611	1220-04-G030	20,000	124
			4,291,828	1,134,948
Pouhala Marsh Protection & Restoration, Ph 2	15.614	C-2	260,000	-
Ilio Point Coastal Ecosystem Restoration, Ph 1	15.614	122001G007	10,000	2,856
Mokulua Seabird Sanctuary Soil Stabilization	15.614	122001G009	15,927	8,294
			285,927	11,150
Statewide Endangered Plant Program	15.615	E-2-MP-3	492,962	-
Candidate Conservation Grants - Development of Candidate Conservation Agreements	15.615	E-4-CC-1	981,899	159,975

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DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

Federal Grantor/ Pass-through Grantor/Program Title	Federal CFDA Number	Grant Number	Grant Award	Federal Expenditures
<u>U.S. Department of the Interior (Continued)</u>				
Recovery Land Acquisition Program Grants	15.615	E-6-RL-1	\$ 150,000	\$ 27,624
Habitat Conservation Plan Grants - Development of HCPs	15.615	E-5-HP-1	517,134	193,917
Safe Harbor Grants - Development of Safe Harbor Agreements	15.615	E-3-SH-1	1,147,186	176,214
Endangered Maui Forest Bird	15.615	122002J002	642,948	66,318
Statewide Endangered Plant Program	15.615	E-2-MP-4	649,950	21,033
Statewide Endangered Wildlife Program	15.615	E-2-5	521,108	13,776
HCP Planning Assistance - Dev of an HCP for Game Mammal Mgmt in North Kona, HI Yr 2	15.615	E-5-HP-2	346,583	37,004
Recovery Land Acquisition Program - State of Hawaii: Waihe'e Coastal Dunes and Wetlands	15.615	E-7-RL-1	1,000,000	100
Statewide Endangered Wildlife Program	15.615	E-2-6	561,108	233,838
Statewide Endangered Plant Program	15.615	E-2-MP-5	598,033	102,980
Coordination and Planning of Programmatic HCP for E&T Seabirds on Kauai, Hawaii	15.615	E-8-HP-1	148,989	5,108
Statewide Endangered Plant Program	15.615	E-2-MP-6	545,332	443,467
Statewide Endangered Wildlife Program	15.615	E-2-7	471,000	94,165
ESA Section 6, Recovery Land Acquisition Program, Manana Valley Protection	15.615	E-9-RL-1	900,000	-
			9,674,232	1,575,519
Statewide Clean Vessel Program	15.616	F-V-1-1	623,000	92,406
Kaena Point Seabird Habitat Restoration	15.617	P-3-MP	50,000	2,343
Construction of Tie-up Facilities for Transient Vessels at Ala Wai Small Boat Harbor, Oahu, Hawaii	15.622	Y-4-D-1	100,000	-
Hawaii Wildlife Conservation & Restoration Program	15.625	R-1-CMRE-1	358,683	-
Hawaii Wildlife Conservation & Restoration Program	15.625	R-2-RE-1	125,250	10,951
			483,933	10,951
National Coastal Wetland Conservation: Waihe'e Coastal Dunes and Wetlands Acquisition	15.630	C-3-1	1,000,000	100
Ulupalakua Ranch - Kanaio Fence & Habitat Restoration	15.631	122001G012	50,000	-
Kauai Bog Endangered Species Management	15.631	122004G032	64,884	7,453
			114,884	7,453

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DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

Federal Grantor/ Pass-through Grantor/Program Title	Federal CFDA Number	Grant Number	Grant Award	Federal Expenditures
<u>U.S. Department of the Interior (Continued)</u>				
Landowner Incentive Program, Tier 1	15.633	I-1-1	\$ 180,000	\$ 15,927
Landowner Incentive Program, Tier 2	15.633	I-2-1	1,551,750	453,175
Landowner Incentive Program, Tier 1	15.633	I-3-1	180,000	4,861
Landowner Incentive Program, Tier 2	15.633	I-4-D-1	1,120,000	765
			<u>3,031,750</u>	<u>474,728</u>
State Wildlife Grant Program	15.634	T-1-P-1	236,060	52,135
Statewide Wildlife Grant Program	15.634	T-2-1-1	389,940	59,926
Native Dryland and Mesic Forest Protection and Restoration	15.634	U-2-M-1	501,270	287,697
State Wildlife Grant Program I. Planning and Coordination of Statewide Program of Terrestrial Wildlife Conservation	15.634	T-1-P-2	175,420	57,419
State Wildlife Grant Program II. Implementation of Statewide Program of Terrestrial Wildlife Conservation	15.634	T-2-2	407,340	134,666
Planning and Coordination of Statewide Program for Aquatic Wildlife Conservation	15.634	T-3-P-1	150,000	3,875
State Wildlife Grant Program I	15.634	T-1-P-3	188,000	64,212
State Wildlife Grant Program II	15.634	T-2-3	424,020	123,831
			<u>2,472,050</u>	<u>783,761</u>
Kuia Natural Area Reserve Fencing	15.FFB	122002J015	25,000	(1,217)
Restore Lake House Reservoir - Pu'u Wa'awa'a	15.FFB	122002G010	233,318	339
Ahupua'a Pu'u Wa'awa'a Coordination	15.FFB	122003G014	60,000	32,600
Axis Deer Control on the Island of Maui	15.FFB	122003G029	60,000	66
Kahakuloa Natural Area Reserve / Game Management Area Fencing Project	15.FFB	122003G035	60,000	35,352
East Maui Watershed - Habitat Restoration and Protection	15.FFB	122003G030	23,520	10,356
Mauna Kea Feral Ungulate Removal	15.FFB	122003J003	25,000	12,112
Humuula Trail	15.FFB	122003G034	8,880	-
Kau Forest Reserve	15.FFB	122003G033	22,000	1,086
Alala Conservation Cooperative Initiative	15.FFB	122003G037	35,000	874
Mauna Kea Forest Reserve Fence Repair: Northwest Section	15.FFB	122003G038	75,000	159
			<u>627,718</u>	<u>91,727</u>
Living Reef Public Awareness Campaign	15.UNK	101603G001	10,650	1,985
National Park Service - Fiscal Year 2003 Survey and Planning Grant	15.904	15-03-18211	467,056	39,838

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

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

Federal Grantor/ Pass-through Grantor/Program Title	Federal CFDA Number	Grant Number	Grant Award	Federal Expenditures
<u>U.S. Department of the Interior (Continued)</u>				
Fiscal Year 2004 Historic Preservation Annual Grant	15.904	15-04-19312	\$ 475,537	\$ 9,693
Fiscal Year 2005 Historic Preservation Annual Grant	15.904	15-05-20413	481,180	-
			<u>1,423,773</u>	<u>49,531</u>
Lanai Tennis / Basketball Court Improvements	15.916	15-00141	100,000	100,000
Wailea Restroom, Hapuna Beach State Recreation Area	15.916	15-00142	217,455	100,683
Lahaina Recreation Center Expansion	15.916	15-00143	220,000	-
Update of Statewide Comprehensive Outdoor Recreation Plan	15.916	15-00144	55,000	-
Aquatic Center, Central Oahu Regional Park	15.916	15-00146	725,000	-
Rubberized Track, Vidinha Stadium, County of Kauai	15.916	15-00147	430,000	-
Keolonahihi State Historical Park, North Kona, Hawaii	15.916	15-00150	600,000	-
Park Improvements, Isaac Hale Beach Park, County of Hawaii	15.916	15-00148	520,824	-
Playground Equipment, Hanapepe Heights Park and Hanapepe Cliffside Park, County of Kauai	15.916	15-00151	42,000	-
			<u>2,910,279</u>	<u>200,683</u>
Management & Conservation of Nene Habitat	15.ABN	H8080010002	85,500	5,547
Bureau of Reclamation - State of Hawaii Drought Planning Assistance	15.BBD	03FC300002	50,000	13,893
State of Hawaii Conservation Planning Assistance	15.BCD	02FG300015	50,000	13,750
Total U.S. Department of the Interior			<u>33,656,975</u>	<u>7,444,949</u>
<u>U.S. Department of Justice</u>				
Drug Enforcement Administration - Direct Programs:				
Domestic Cannabis Eradication/Suppression	16.UNK	LOA 2004-49	348,000	241,617
Domestic Cannabis Eradication/Suppression	16.UNK	LOA 2005-56	469,784	175,482
			<u>817,784</u>	<u>417,099</u>
Subtotal Direct Programs			<u>817,784</u>	<u>417,099</u>

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DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

Federal Grantor/ Pass-through Grantor/Program Title	Federal CFDA Number	Grant Number	Grant Award	Federal Expenditures
<u>U.S. Department of Justice (Continued)</u>				
Office of Justice Programs -				
Pass-Through Programs From:				
The Department of the Attorney General, Crime Prevention and Justice Assistance Division, State of Hawaii -				
Statewide Marijuana Eradication Task Force	16.579	SOH-AG 03-DB-10	\$ 150,000	\$ 133,446
Maritime Intelligence & Enforcement Program	16.579	SOH-AG 04-DB-07	150,000	41,019
			<u>300,000</u>	<u>174,465</u>
Subtotal Pass-Through Programs			<u>300,000</u>	<u>174,465</u>
Total U.S. Department of Justice			<u>1,117,784</u>	<u>591,564</u>
<u>U.S. Department of Transportation</u>				
Federal Highway Administration -				
Direct Programs:				
Ka Iwi Scenic Shoreline	20.205	STP-072-1(46)	5,093,000	35,342
Na Ala Hele Trail & Access System	20.219	NRT-NRT 1(007)	533,643	100
Na Ala Hele Trail & Access System	20.219	NRT-NRT 1(008)	530,738	530,638
Na Ala Hele Trail & Access System	20.219	NRT-NRT 1(009)	625,284	-
			<u>1,689,665</u>	<u>530,738</u>
Subtotal Direct Programs			<u>6,782,665</u>	<u>566,080</u>
Federal Transit Administration -				
Pass-Through Programs From:				
The Department of Transportation, State of Hawaii -				
Maui Ferry System and Harbor Improvements	20.500	SOH-DOT HI-03-0027-00	408,000	236,338
Ferry Boat Acquisition & Pier Improvements	20.500	SOH-DOT HI-03-0034-00	7,460,000	383,786
			<u>7,868,000</u>	<u>620,124</u>
Subtotal Pass-Through Programs			<u>7,868,000</u>	<u>620,124</u>
Total U.S. Department of Transportation			<u>14,650,665</u>	<u>1,186,204</u>
<u>Environmental Protection Agency</u>				
Direct Programs:				
Alien Seaweed Eradication & Monitoring	66.461	CD-97918501-0	103,145	31,145

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**DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005**

Federal Grantor/ Pass-through Grantor/Program Title	Federal CFDA Number	Grant Number	Grant Award	Federal Expenditures
<u>Environmental Protection Agency (Continued)</u>				
Wetlands Protection Development - Hamakua Monitoring and Restoration	66.461	CD-97955301-0	\$ 75,000	\$ 40,819
Wetlands Protection Development - Plant Field Guide	66.461	CD-97911601	93,750	49
			<u>271,895</u>	<u>72,013</u>
Subtotal Direct Programs			<u>271,895</u>	<u>72,013</u>
Pass-Through Program From:				
The Department of Health, State of Hawaii - Moa'ulaiki Watershed Restoration	66.460	SOH-DOH ASO No. 04-184	388,220	155,340
Subtotal Pass-Through Programs			<u>388,220</u>	<u>155,340</u>
Total Environmental Protection Agency			<u>660,115</u>	<u>227,353</u>
<u>Corporation for National and Community Service</u>				
Pass-Through Programs From:				
The Research Corporation of the University of Hawaii, State of Hawaii - Hawaii Youth Conservation Corps	94.006	SOH-UH RCUH Z677765	137,500	135,572
Hawaii Youth Conservation Corps	94.006	SOH-UH RCUH Z707181	136,399	22,819
			<u>273,899</u>	<u>158,391</u>
Total Pass-Through Programs			<u>273,899</u>	<u>158,391</u>
Total Corporation for National and Community Service			<u>273,899</u>	<u>158,391</u>
<u>U.S. Department of Homeland Security</u>				
Direct Programs:				
U.S. Coast Guard -				
Recreational Boating Safety Program	97.012	14.01.15	701,920	182,284
Recreational Boating Safety Program	97.012	15.01.15	479,102	479,102
			<u>1,181,022</u>	<u>661,386</u>
Federal Emergency Management Agency - Community Assistance Program	97.023	EMF-2004-GR-0413	72,640	9,090
Community Assistance Program	97.023	EMF-2005-GR-0503	72,640	51,187
			<u>145,280</u>	<u>60,277</u>

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

**DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005**

Federal Grantor/ Pass-through Grantor/Program Title	Federal CFDA Number	Grant Number	Grant Award	Federal Expenditures
<u>U.S. Department of Homeland Security (Continued)</u>				
National Dam Safety Grant Program	97.041	EMW-2003-GR-0350	\$ 53,480	\$ 4,770
Map Modernization Support Program	97.070	EMF-2005-GR-0506	120,000	-
Transportation Security Administration - Port Security Grant Program	97.056	D TSA20-03-G-01060	1,450,000	645,800
Subtotal Direct Programs			<u>2,949,782</u>	<u>1,372,233</u>
Federal Emergency Management Agency - Pass-Through Program From:				
The Department of Defense, Office of the Director of Civil Defense, State of Hawaii - October 2004 Flood	97.036	SOH-DOD FEMA-1575-DR-HI	90,057	26,712
Office of Domestic Preparedness - Pass-Through Programs From:				
The Department of Defense, Office of the Director of Civil Defense, State of Hawaii - FY 2003 State Homeland Security Grant Program Part II	97.004	SOH-DOD FY2003 SHSGP Part II	300,000	92,605
Pre-Disaster Mitigation Project & Drought Hazard Analysis & Vulnerability Assessment	97.047	SOH-DOD-58-0101-0-1-999	75,000	-
Pre-Disaster Mitigation Project on County Drought Mitigation Plans	97.047	SOH-DOD	50,000	42,688
			<u>125,000</u>	<u>42,688</u>
FY 2003 State Homeland Security Grant Funds Part I	97.067	SOH-DOD FY2003 SHSGP Part I	217,000	-
FY 2004 State Homeland Security Grant	97.067	SOH-DOD FY2004 SHSGP	332,986	-
FY 2005 State Homeland Security Grant	97.067	SOH-DOD FY2005 SHSGP	303,428	-
			<u>853,414</u>	<u>-</u>
Subtotal Pass-Through Programs			<u>1,368,471</u>	<u>162,005</u>
Total U.S. Department of Homeland Security			<u>4,318,253</u>	<u>1,534,238</u>
Total Federal Grants			<u>\$ 115,168,036</u>	<u>\$ 17,324,020</u>

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

PART IV

COMPLIANCE AND INTERNAL CONTROL SECTION

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

Board of Land and Natural Resources
State of Hawaii

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Department of Land and Natural Resources, State of Hawaii (Department), as of and for the year ended June 30, 2005, which collectively comprise the Department's basic financial statements and have issued our report thereon dated October 13, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Department, in a separate letter dated October 13, 2005.

Compliance and Other Matters

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

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

Ohata Chun Gwan LLP

Honolulu, Hawaii
October 13, 2005

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

Board of Land and Natural Resources
State of Hawaii

Compliance

We have audited the compliance of the Department of Land and Natural Resources, State of Hawaii (Department), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. The Department's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Department's management. Our responsibility is to express an opinion on the Department's compliance based on our audit.

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

In our opinion, the Department complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of the Department, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Department's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

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

Honolulu, Hawaii
October 13, 2005

PART V

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

DEPARTMENT OF LAND AND NATURAL RESOURCES
 STATE OF HAWAII
 Schedule Of Findings And Questioned Costs
 For The Year Ended June 30, 2005

Section I - Summary Of Auditors' Results

Financial Statements -

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes x no
- Reportable condition(s) identified that are not considered to be material weakness(es)? _____ yes x none reported
- Noncompliance material to financial statements noted? _____ yes x no

Federal Awards -

Internal control over major programs:

- Material weakness(es) identified? _____ yes x no
- Reportable condition(s) identified that are not considered to be material weakness(es)? _____ yes x none reported

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

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

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.664	Cooperative Forestry Assistance
15.611	Wildlife Restoration
15.634	State Wildlife Grants
20.219	Recreation Trails Program
20.500	Federal Transit Capital Investment Grants
97.056	Port Security Grant Program

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Schedule Of Findings And Questioned Costs
For The Year Ended June 30, 2005

Section I - Summary Of Auditors' Results (continued)

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

\$ 519,721

Auditee qualified as low-risk auditee?

 x yes no

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Schedule Of Findings And Questioned Costs
For The Year Ended June 30, 2005

Section II - Financial Statement Findings

None

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Schedule Of Findings And Questioned Costs
For The Year Ended June 30, 2005

Section III - Federal Award Findings And Questioned Costs

None

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Schedule Of Prior Findings And Questioned Costs
For The Year Ended June 30, 2005

Finding

Status

None