

DEPARTMENT OF LAND AND NATURAL RESOURCES  
STATE OF HAWAII

FINANCIAL STATEMENTS  
AND REPORT OF INDEPENDENT  
CERTIFIED PUBLIC ACCOUNTANTS

JUNE 30, 2006

PART I  
INTRODUCTORY SECTION

December 8, 2006

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, 2006. 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, 2006.

## 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,



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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, 2006, 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, 2006, 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 December 8, 2006, 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 through 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  
December 8, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2006

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

Fund Financial Statements

The fund financial statements provide more detailed information about the Department's most significant funds and not the Department as a whole. The financial activities of the Department 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 Department 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 Department 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 Department. 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 Department for designated purposes.
- **Fiduciary Funds:** These funds account for assets held by the Department in a trustee or agent capacity for other State Departments, individuals and organizations.

MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2006

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 Department's financial position. As of June 30, 2006, the Department's total net assets were approximately \$361.7 million.

The largest part of the Department'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 Department uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Department's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The following is a comparative statement of net assets:

Summary of Statement of Net Assets  
(in millions)

	<u>2006</u>	<u>2005</u>	<u>Increase (Decrease)</u>
Cash and short term investments	\$ 177.3	\$ 154.8	\$ 22.5
Receivables	3.2	2.7	0.5
Capital assets	<u>227.7</u>	<u>204.3</u>	<u>23.4</u>
Total assets	<u>\$ 408.2</u>	<u>\$ 361.8</u>	<u>\$ 46.4</u>
Current liabilities	35.9	34.2	1.7
Long-term liabilities	<u>10.6</u>	<u>11.0</u>	<u>(0.4)</u>
Total liabilities	<u>46.5</u>	<u>45.2</u>	<u>1.3</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2006

Invested in capital assets, net of related debt	220.9	196.4	24.5
Unrestricted	<u>140.8</u>	<u>120.2</u>	<u>20.6</u>
Total net assets	<u>361.7</u>	<u>316.6</u>	<u>45.1</u>
Total liabilities and net assets	<u>\$ 408.2</u>	<u>\$ 361.8</u>	<u>\$ 46.4</u>

Department's net assets increased by \$45.1 million during the fiscal year ended June 30, 2006. This was the result on increases in Cash and short term investments by \$22.5 million and Capital assets by \$23.4.

Cash in the Special Land Development Fund and the Natural Area Reserves Fund increased by \$6.7 and \$8.6 million respectively because of an increased allocation of conveyance taxes. Funds available for Capital Improvement Projects increased by \$11.8 million. Included within this amount were allotments approved for Maui County's ferry system and land acquisition in Moanalua Valley.

Capital asset increases included \$2.7 million of land acquisitions, \$4.5 million for improvements to the pier in Kailua Kona and an increase of \$17.5 million in construction work in progress.

Analysis of the Department's Operations: The following table provides a summary of the Department's operations for the year ended June 30, 2006:

	Changes in Net Assets (in millions)		
	<u>2006</u>	<u>2005</u>	<u>Increase (Decrease)</u>
Program revenue			
Interest, rents, taxes and fees	\$ 48.9	\$ 33.5	\$ 15.4
Operating grants and contributions	26.1	14.7	11.4
State allotted appropriations, net of lapses	<u>63.7</u>	<u>61.2</u>	<u>2.5</u>
Total revenue	<u>138.7</u>	<u>109.4</u>	<u>29.3</u>
Total expenses	<u>86.7</u>	<u>86.5</u>	<u>0.2</u>
Excess before transfers	52.0	22.9	29.1
Transfers	<u>(6.9)</u>	<u>(1.5)</u>	<u>(5.4)</u>
Change in net assets	45.1	21.4	23.7
Net assets – beginning	<u>316.6</u>	<u>295.2</u>	<u>21.4</u>
Net assets - end of year	<u>\$ 361.7</u>	<u>\$ 316.6</u>	<u>\$ 45.1</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2006

Revenues of the Department consist of state appropriations, charges for services, program investment income and federal grants. Charges for services consist primarily of rent from leases, licenses and permits from public lands. Allocations of conveyance and liquid fuel taxes are also included in program revenue as is interest earned on funds invested by the State Director of Finance. An additional \$13.7 million in conveyance taxes was received by the Department in FY06. Grant revenue increased in FY06 due to a number of non-recurring federally funded projects. Included in this category would be \$2.9 million for land purchases, \$3.4 million for scenic shoreline improvements, \$775,000 for Maui County ferry system improvements and \$605,800 for the construction of a hunter education facility on the Big Island.

**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 Department uses fund accounting to ensure and demonstrate compliance with finance and related legal requirements.

Comparison of Balance Sheets  
(in millions)

	Assets			Liabilities			Fund Balances		
	2006	2005	Change	2006	2005	Change	2006	2005	Change
General Fund	\$ 5.4	\$ 3.9	\$ 1.5	\$ 2.5	\$ 1.6	\$ 0.9	\$ 2.8	\$ 2.3	\$ 0.5
Federal Grant Fund	10.4	11.6	(1.2)	12.6	14.6	(2.0)	(2.2)	(3.0)	0.8
Special Land Development Fund	14.6	7.8	6.8	0.8	1.0	(0.2)	13.9	6.9	7.0
Water and Land Development Fund	0.5	0.5	0.0	6.2	6.2	0.0	(5.6)	(5.6)	0.0
Natural Area Reserves Fund	16.9	8.3	8.6	0.7	0.4	0.3	16.2	7.9	8.3
Ocean Based Recreation Fund	2.3	2.3	(0.0)	3.4	3.5	(0.1)	(1.0)	(1.2)	0.2
Kaho'olawe Rehabilitation Trust Fund	27.8	30.9	(3.1)	0.3	0.4	(0.1)	27.5	30.4	(2.9)
Capital Projects Fund	91.9	79.8	12.1	3.3	2.0	1.3	88.6	77.8	10.8
Other Funds	10.6	12.4	(1.8)	2.6	1.3	1.3	7.9	11.0	(3.1)
<b>Total</b>	<b>\$ 180.4</b>	<b>\$ 157.5</b>	<b>\$ 22.9</b>	<b>\$ 32.4</b>	<b>\$ 31.0</b>	<b>\$ 1.4</b>	<b>\$ 148.1</b>	<b>\$ 126.5</b>	<b>\$ 21.6</b>

MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2006

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

	Revenues		Expenditures		Transfers		Lapsed Appropriations		Net Changes in Fund Balances		
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	
				Change							Change
General Fund	\$29.3	\$25.6	\$27.1	\$22.3	\$4.8	(\$0.5)	(\$0.5)	(\$0.7)	\$0.2	\$2.0	(\$1.4)
Federal Grant Fund	17.5	12.0	16.0	12.5	3.5	(0.7)	(0.7)	0.0	0.0	(0.5)	1.3
Special Land Development Fund	13.9	7.3	5.4	8.4	(3.0)	(1.5)	(0.2)	(1.3)	0.0	(1.3)	8.3
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
Natural Area Reserve Fund	13.9	5.7	3.6	3.0	0.6	(2.0)	(2.0)	0.0	0.0	8.3	0.7
Ocean-Based Recreation Fund	11.2	10.3	9.8	9.2	0.6	(1.2)	(1.4)	0.2	0.0	0.2	(0.3)
Kaho'olawe Rehabilitation Trust Fund	1.2	0.9	4.1	3.6	0.5	0.0	0.0	0.0	0.0	(3.0)	(2.7)
Capital Projects Fund	42.5	43.6	30.0	16.0	14.0	(1.6)	0.7	(2.3)	0.0	(5.1)	5.1
Other Funds	9.2	9.6	13.3	14.8	(1.5)	1.0	2.9	(1.9)	0.0	(3.1)	(2.3)
Total	\$138.7	\$115.0	\$109.3	\$89.8	\$19.5	(\$0.5)	(\$6.5)	(\$0.7)	(\$6.0)	\$5.3	\$21.7
											\$18.8
											\$2.9

MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2006

The General Fund is the primary operating fund of the Department. At the end of the current fiscal year, there was a \$1 million deficit in the unreserved fund balance of the General Fund. The deficit resulted from recognition of expenditures under GAAP in 2006 and will be funded with fiscal year 2007 state allotted appropriations.

The Department has five 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 Department's five major special revenue funds are: 1) Federal Grant Fund; 2) Special Land and Development Fund; 3) Water and Land Development Fund; 4) Natural Area Reserves Fund; and 5) 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 \$25.8 million from almost 200 hundred individual grants. A Schedule of Expenditures of Federal Awards, which lists the various grants, can be found in the Supplemental Information section.

The Special Land and Development Fund was established by Act 32, SLH 1962 to account for non-ceded land proceeds from the sale of public lands and rents from leases, licenses, and permits. Non-ceded public lands are defined as lands acquired by the Territory after annexation and prior to statehood, and those lands acquired after statehood from the federal government and private landowners. For FY06 revenue exceeded expenditures by approximately \$5.4 million.

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 Natural Area Reserves Fund was established in FY92 to fund the NARS program. Allowable uses include the identification, establishment and management of natural area reserves, the acquisition of private lands for new natural area reserves, the operation of the heritage program, and the provision of matching funds for the natural area partnership program. The primary source of revenue for this fund is a dedicated portion of conveyance taxes collected by the Bureau of Conveyances. For FY06, this amounted to \$13.6 million.

The Ocean-Based Recreation Fund accounts for revenues collected to implement the boating and ocean recreation program. Deposits into this fund include a portion of the liquid fuel tax used by recreational boaters. Revenue was approximately \$11.2 million and expenditures approximately \$9.8 million.

The Kaho`olawe Rehabilitation Trust Fund is Department'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 control of the Reserve.

MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2006

The Capital Projects Fund received approximately \$42.50 million of State allotted appropriations for capital projects. Capital projects funds are used to account for financial resources to acquire or construct major capital facilities.

**FINANCIAL ANALYSIS OF THE DEPARTMENT'S FIDUCIARY NET ASSETS**

These funds account for assets held by the Department in a trustee or agent capacity for other State Departments, individuals and organizations. Cash and short term investments increased by \$5.1 million in receipts which represents the 80% share of general funds derived from ceded lands. These funds will be used to fulfill any commitments to the Office of Hawaiian Affairs required per Section 3 of Act 178, SLH 2006 and Executive Order No. 06-06.

Summary of Statement of Fiduciary Assets  
(In millions)

	2006	2005	Increase (Decrease)
Cash and short term investments	\$ 9.5	\$ 4.4	\$ 5.1
Receivables - General leases and licenses	0.7	0.6	0.1
Total assets	<u>10.2</u>	<u>5.0</u>	<u>5.2</u>
Due to State Treasury	0.5	0.4	0.1
Due to other State agencies	0.8	0.7	0.1
Total liabilities	<u>1.3</u>	<u>1.1</u>	<u>0.2</u>
Held in trust for Individuals and organizations	8.9	3.9	5.0
Total net assets	<u>\$ 8.9</u>	<u>\$ 3.9</u>	<u>\$ 5.0</u>

**BUDGETARY HIGHLIGHTS**

General Fund - Actual expenditures for general funded programs were \$1.4 million less than the budgeted expenditures. This was due primarily to savings from vacant positions and allotted but unexpended emergency general funds provided for the March 2006 floods.

Federal Funds - In anticipation of new and additional federal grant funds in fiscal year 2006, the Department requested and received approval from the Governor to increase the ceilings on its federal grant operating appropriations by approximately \$17.5 million. Additional sources of federal funding included grants under the National Park Service, Land and Water Conservation Fund. These funds are made available for park improvements at the state and county levels. The Department requested authority to expend approximately \$3.6 million in economic assistance to Hawaii's fishers and fisheries with funds from the National Oceanic and Atmospheric Administration. Ceiling increases were also approved for \$2.9 million in grant funds from the Sport Fish Restoration Fund. Approximately \$7.3 million in new sources of funding became available for our forestry and wildlife programs in FY06. These included funds for endangered species recovery and restoration, landowner incentives to manage and conserve wildlife and habitat, land acquisitions for wetlands and



## MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

endangered species, promotion of the forestry industry in Hawaii and a variety of private landowner assistance programs.

Federal grants usually require that the Department 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.

Special Land Development Fund – The Land Conservation Fund was established in FY06 and is included within the Special Land Development Fund. Conveyance taxes in the amount of \$5.7 million were recorded as revenue to this fund and accounts for the bulk of the \$6.9 million revenue variance. The \$1.2 million increase from the original budget included authorizations for the Land Conservation Fund and collective bargaining.

Water and Land Development Fund – This fund contains a revolving fund used to receive and pay for accumulated leave of capital projects funded staff. Revenue is recognized from 1) accumulated vacation transfers for new staff and 2) interest income earned on the accumulated fund balance. Interest income for the year amounted to \$19,916. The remaining revenue balance of \$1,828 was received for accumulated leave for new staff members and the expenditure of \$13,000 represents the payment of accumulated vacation leave for staff that left the program. This fund's revenue and expenditures are directly related to personnel decisions and therefore cannot be accurately predicted.

Natural Area Reserves Fund – An increase in conveyance tax collections in FY06 resulted in a corresponding increase in the twenty five percent share deposited into this fund. Of the \$10,593,045 variance, \$8,032,019 can be attributed to conveyance taxes. This increase in conveyance tax collections was not known at the time the programs budget was approved.

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 \$4.4 million less than budgeted and expenditures were \$5.2 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 2006 the DEPARTMENT had invested approximately \$227.7 million (net of accumulated depreciation) in a broad range of capital assets. The inventory of construction-in-progress increased by \$17.5 million. Land purchased from private owners included 1.25 acres as an addition to the Keolonahihi State Historical Park in North Kona and Oahu property in Manana Valley for watershed protection.

See Note 5 to the financial statements for a description of capital assets activities for the Fiscal Year Ended June 30, 2006.

MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2006

Capital Assets (In millions)			
	2006	2005	Increase (Decrease)
Capital assets not being depreciated			
Land	\$ 141.5	\$ 138.7	\$ 2.8
Land improvements	0.7	0.7	0.0
Construction in progress	40.4	22.9	17.5
Total capital assets not being depreciated	182.6	162.3	20.3
Capital assets being depreciated			
Buildings	31.8	31.9	(0.1)
Land and improvements	78.2	70.4	7.8
Furniture and equipment	7.8	7.6	0.2
Vehicles	12.8	12.3	0.5
Total capital assets being depreciated	130.6	122.2	8.4
Less total accumulated depreciation	(85.5)	(80.3)	(5.2)
Total capital assets being depreciated, net	45.1	41.9	3.2
Total capital assets, net	\$ 227.7	\$ 204.2	\$ 23.5

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

The accrued vacation balance as of June 30, 2006 was \$7,265,002, an increase of \$1,072,059 from fiscal year 2005. Beginning with FY06, leave amounts were increased to include certain fringe benefits. For FY06, the value attributed to fringe benefits was \$516,278.

The outstanding balance of the State of Hawaii general obligation bonds allocated to the Department is approximately \$6.8 million as of June 30, 2006, a decrease of \$1,100,938 from the amount outstanding as of June 30, 2005. In addition to the payments for bond principal, interest approximating \$340,480 was paid by during the fiscal year ended June 30, 2006. 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, 2006.

Long Term Obligations (In millions)			
	2006	2005	Increase (Decrease)
Accrued vacation	\$ 7.3	\$ 6.2	\$ 1.1
General obligation bonds	6.8	7.9	(1.1)
Total long term debt	\$ 14.1	\$ 14.1	\$ (0.0)

MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2006

**CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS**

The Department has entered into an agreement with the Department of Budget and Finance for a loan up to \$1,000,000 to temporarily fund grant reimbursable costs on Federal Aid projects for ferry system improvements in Maui County. The Department serves as a sub-recipient to the State Department of Transportation for these projects and is required to pay its vendors' invoices prior to submitting claims for reimbursement.

**FINANCIAL CONTACT**

This financial report is designed to provide a general overview of the Department'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, 2006

**ASSETS**

Cash and short-term cash investments held in State Treasury	\$177,291,011
Receivables:	
Federal grants	2,950,607
General leases and licenses, net of allowance for losses of \$827,633	224,862
Capital assets:	
Land, improvements, construction-in-progress and other capital assets, net of depreciation	<u>227,729,010</u>
Total assets	<u>\$408,195,490</u>

**LIABILITIES**

Vouchers and contracts payable	\$ 7,699,297
Accrued wages and employee benefits payable	2,304,172
Due to State Treasury	11,638,550
Due to other State agencies	8,302,994
Deferred revenue	2,495,517
General obligation bonds:	
Due within one year	1,160,000
Due in more than one year	5,656,804
Accrued vacation:	
Due within one year	2,334,166
Due in more than one year	<u>4,930,836</u>
Total liabilities	<u>46,522,336</u>

Commitments and contingencies

**NET ASSETS**

Invested in capital assets, net of related debt	220,912,206
Unrestricted	<u>140,760,948</u>
Total net assets	<u>361,673,154</u>
Total liabilities and net assets	<u>\$408,195,490</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, 2006

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Interest, Rents and Fees</u>	<u>Program Revenue</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
			<u>Operating Grants and Contributions</u>	
Departmental activities:				
Economic development	\$ 4,145,768	\$ 903,603	\$ 5,482,080	\$ 2,239,915
Environmental protection	39,643,484	15,038,755	10,008,353	(14,596,376)
Culture and recreation	28,236,472	14,257,964	9,149,210	(4,829,298)
Public safety	584,764	-	(127,446)	(712,210)
Individual rights	3,754,613	4,936,732	-	1,182,119
Government-wide support	6,243,272	13,800,062	1,566,982	9,123,772
Capital outlays	<u>4,062,785</u>	<u>-</u>	<u>-</u>	<u>(4,062,785)</u>
Total departmental activities	<u>\$86,671,158</u>	<u>\$48,937,116</u>	<u>\$26,079,179</u>	<u>(11,654,863)</u>
General revenues:				
Appropriations, net of lapsed appropriations				<u>63,690,326</u>
Total general revenues before transfers				63,690,326
Transfers, net				<u>(6,940,733)</u>
Total general revenues and transfers				<u>56,749,593</u>
Change in net assets				<u>45,094,730</u>
Net assets at July 1, 2005				<u>316,578,424</u>
Net assets at June 30, 2006				<u>\$361,673,154</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, 2006

	General Fund	Federal Grant Fund	Special Land Development Fund	Water and Land Development Fund	Natural Area Reserves Fund	Ocean-Based Recreation Fund	Kaho'olawe Rehabilitation Trust Fund	Capital Projects Fund	Other Funds	Total
<b>ASSETS</b>										
Cash and short-term cash investments held in State Treasury	\$ 5,361,739	\$ 8,251,547	\$14,526,920	\$ 542,443	\$16,908,871	\$ 2,198,006	\$27,790,145	\$91,143,707	\$10,567,633	\$177,291,011
Receivables:										
Federal grants	-	2,148,182	84,719	-	-	-	-	802,425	-	2,930,607
General leases and licenses, net of allowance of \$827,633	-	-	-	-	-	140,143	-	-	-	224,862
Total assets	<u>\$ 5,361,739</u>	<u>\$10,399,729</u>	<u>\$14,611,639</u>	<u>\$ 542,443</u>	<u>\$16,908,871</u>	<u>\$ 2,338,149</u>	<u>\$27,790,145</u>	<u>\$91,946,132</u>	<u>\$10,567,633</u>	<u>\$180,466,480</u>
<b>LIABILITIES</b>										
Vouchers and contracts payable	\$ 1,523,583	\$ 1,471,348	\$ 210,582	\$ -	\$ 192,731	\$ 232,874	\$ 184,566	\$ 3,077,385	\$ 806,228	\$ 7,699,297
Accrued wages and employee benefits payable	1,003,827	137,062	192,646	-	-	226,773	130,221	119,551	494,092	2,304,172
Due to State Treasury	-	9,153,826	-	-	-	1,187,138	-	114,191	1,183,395	11,638,550
Due to other State agencies	-	-	137,324	6,180,795	518,392	1,383,935	-	-	82,548	8,302,994
Deferred revenue	-	1,864,294	216,444	-	-	336,084	-	-	78,695	2,495,517
Total liabilities	<u>2,527,410</u>	<u>12,626,530</u>	<u>756,996</u>	<u>6,180,795</u>	<u>711,123</u>	<u>3,366,804</u>	<u>314,787</u>	<u>3,311,127</u>	<u>2,644,958</u>	<u>32,440,530</u>
Commitments and contingencies										
<b>FUND BALANCES</b>										
Reserved for:										
Encumbrances	3,841,206	8,258,541	3,474,620	-	1,187,789	856,091	1,107,050	69,034,459	4,396,549	92,156,305
Receivables	-	2,148,182	84,719	-	-	140,143	-	802,425	-	3,175,469
Continuing appropriations	-	-	-	-	-	-	-	18,798,121	-	18,798,121
Unexpended Federal awards	-	-	-	-	-	-	26,368,308	-	-	26,368,308
Total reserved fund balances	<u>3,841,206</u>	<u>10,406,723</u>	<u>3,559,339</u>	<u>-</u>	<u>1,187,789</u>	<u>996,234</u>	<u>27,475,358</u>	<u>88,635,005</u>	<u>4,396,549</u>	<u>140,498,203</u>
Unreserved:										
Unreserved reported in major funds	(1,006,877)	(12,633,524)	10,295,304	(5,638,352)	15,009,959	(2,024,889)	-	-	-	4,001,621
Unreserved reported in nonmajor - Special revenue funds	-	-	-	-	-	-	-	-	3,526,126	3,526,126
Total unreserved fund balances	<u>(1,006,877)</u>	<u>(12,633,524)</u>	<u>10,295,304</u>	<u>(5,638,352)</u>	<u>15,009,959</u>	<u>(2,024,889)</u>	<u>-</u>	<u>-</u>	<u>3,526,126</u>	<u>7,527,747</u>
Total fund balances	<u>2,834,329</u>	<u>(2,226,801)</u>	<u>13,854,643</u>	<u>(5,638,352)</u>	<u>16,197,748</u>	<u>(1,028,655)</u>	<u>27,475,358</u>	<u>88,635,005</u>	<u>7,922,675</u>	<u>148,025,950</u>
Total liabilities and fund balances	<u>\$ 5,361,739</u>	<u>\$10,399,729</u>	<u>\$14,611,639</u>	<u>\$ 542,443</u>	<u>\$16,908,871</u>	<u>\$ 2,338,149</u>	<u>\$27,790,145</u>	<u>\$91,946,132</u>	<u>\$10,567,633</u>	<u>\$180,466,480</u>

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

DEPARTMENT OF LAND AND NATURAL RESOURCES  
STATE OF HAWAII  
Statement Of Revenues, Expenditures And Changes In Fund Balances  
Governmental Funds  
For The Year Ended June 30, 2006

	General Fund	Federal Grant Fund	Special Land Development Fund	Water and Land Fund	Natural Area Reserves Fund	Ocean-Based Recreation Fund	Kaho'olawe Rehabilitation Trust Fund	Capital Projects Fund	Other Funds	Total
<b>Revenues</b>										
Appropriations	\$29,320,129	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$35,118,500	-	\$ 64,438,629
Intergovernmental revenues	-	17,476,351	-	-	-	-	245,133	7,334,320	-	25,055,804
General leases, licenses and permits	-	-	7,609,393	-	-	9,478,732	-	-	7,872,661	24,960,786
Taxes, fuel and others	-	-	5,664,611	-	13,611,529	1,616,894	-	-	799,307	21,692,341
Interest	-	42,173	526,058	19,917	281,516	82,870	936,418	23,789	371,248	2,283,989
Other	-	11,112	80,950	1,827	-	14,365	2,352	-	198,769	309,375
<b>Total revenues</b>	<u>29,320,129</u>	<u>17,529,636</u>	<u>13,881,012</u>	<u>21,744</u>	<u>13,893,045</u>	<u>11,192,861</u>	<u>1,183,903</u>	<u>42,476,609</u>	<u>9,241,985</u>	<u>138,740,924</u>
<b>Expenditures</b>										
Current:										
Economic development	1,667,163	1,751,739	-	13,000	-	-	-	-	645,583	4,077,485
Environmental protection	16,880,500	9,534,064	-	-	3,581,265	-	4,149,758	-	3,990,239	38,135,826
Culture and recreation	8,415,047	4,378,440	-	-	8,394,483	-	-	-	4,337,175	25,525,145
Public safety	143,332	355,920	-	-	-	-	-	-	-	499,252
Individual rights	-	-	-	-	-	-	-	-	3,629,198	3,629,198
Government-wide support	-	21,297	5,414,124	-	-	-	-	-	733,429	6,168,850
Capital improvement projects	-	-	-	-	-	-	-	29,962,845	-	29,962,845
Debt service:										
Principal on long-term debt	-	-	-	-	-	1,100,938	-	-	-	1,100,938
Interest on long-term debt	-	-	-	-	-	346,937	-	-	-	346,937
<b>Total expenditures</b>	<u>27,106,042</u>	<u>16,041,460</u>	<u>5,414,124</u>	<u>13,000</u>	<u>3,581,265</u>	<u>9,842,358</u>	<u>4,149,758</u>	<u>29,962,845</u>	<u>13,335,624</u>	<u>109,446,476</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,214,087</u>	<u>1,488,176</u>	<u>8,466,888</u>	<u>8,744</u>	<u>10,311,780</u>	<u>1,350,503</u>	<u>(2,965,855)</u>	<u>12,513,764</u>	<u>(4,093,639)</u>	<u>29,294,448</u>
Other financing sources (uses)										
Operating transfers in	-	10,007,053	3,861,498	533,699	4,893,503	10,705,449	28,660,498	935,877	9,225,609	68,823,186
Operating transfers out	(990,799)	(10,720,075)	(5,328,153)	(533,699)	(6,918,831)	(11,862,864)	(28,660,498)	(2,493,522)	(8,255,478)	(75,763,919)
<b>Total other financing sources (uses)</b>	<u>(990,799)</u>	<u>(713,022)</u>	<u>(1,466,655)</u>	<u>-</u>	<u>(2,025,328)</u>	<u>(1,157,415)</u>	<u>-</u>	<u>(1,557,645)</u>	<u>970,131</u>	<u>(6,940,733)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>1,223,288</u>	<u>775,154</u>	<u>7,000,233</u>	<u>8,744</u>	<u>8,286,452</u>	<u>193,088</u>	<u>(2,965,855)</u>	<u>10,956,119</u>	<u>(3,123,508)</u>	<u>22,353,715</u>
Lapsed appropriations	(664,754)	-	-	-	-	-	-	(83,549)	-	(748,303)
Net change in fund balances	<u>558,534</u>	<u>775,154</u>	<u>7,000,233</u>	<u>8,744</u>	<u>8,286,452</u>	<u>193,088</u>	<u>(2,965,855)</u>	<u>10,872,570</u>	<u>(3,123,508)</u>	<u>21,605,412</u>
Fund balances at July 1, 2005	<u>2,275,795</u>	<u>(3,001,955)</u>	<u>6,854,410</u>	<u>(5,647,096)</u>	<u>7,911,296</u>	<u>(1,221,743)</u>	<u>30,441,213</u>	<u>77,762,435</u>	<u>11,046,183</u>	<u>126,420,538</u>
Fund balances at June 30, 2006	<u>\$ 2,834,329</u>	<u>\$ (2,226,801)</u>	<u>\$ 13,854,643</u>	<u>\$ (5,638,352)</u>	<u>\$ 16,197,748</u>	<u>\$ (1,028,655)</u>	<u>\$ 27,475,358</u>	<u>\$ 88,635,005</u>	<u>\$ 7,922,675</u>	<u>\$ 148,025,950</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, 2006

	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash and short-term cash investments held in State Treasury	\$ 9,462,424
Receivables:	
General leases and licenses, net of allowance for losses of \$270,985	<u>718,274</u>
Total assets	<u>10,180,698</u>
 <b>LIABILITIES</b>	
Due to State Treasury	506,699
Due to other State agencies	<u>778,880</u>
Total liabilities	<u>1,285,579</u>
 <b>NET ASSETS</b>	
Held in trust for:	
Individuals and organizations	<u>8,895,119</u>
Total net assets	<u>\$ 8,895,119</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, 2006

	<u>Total Governmental Funds</u>	<u>Long-Term Assets, Liabilities</u>	<u>Reclassifications and Eliminations</u>	<u>Statement of Net Assets</u>
<b>ASSETS</b>				
Cash and short-term cash investments held in State Treasury	\$177,291,011	\$ -	\$ -	\$177,291,011
Receivables:				
Federal grants	2,950,607	-	-	2,950,607
General leases and licenses, net of allowance for losses	224,862	-	-	224,862
Capital assets:				
Land, improvements, construction-in-progress and other capital assets, net of depreciation	<u>-</u>	<u>227,729,010</u> (1)	<u>-</u>	<u>227,729,010</u>
Total assets	<u>\$180,466,480</u>	<u>\$227,729,010</u>	<u>\$ -</u>	<u>\$408,195,490</u>
<b>LIABILITIES</b>				
Vouchers and contracts payable	\$ 7,699,297	\$ -	\$ -	\$ 7,699,297
Accrued wages and employee benefits payable	2,304,172	-	-	2,304,172
Due to State Treasury	11,638,550	-	-	11,638,550
Due to other State agencies	8,302,994	-	-	8,302,994
Deferred revenue	2,495,517	-	-	2,495,517
Bonds payable:				
Due within one year	-	1,160,000 (2)	-	1,160,000
Due in more than one year	-	5,656,804 (2)	-	5,656,804
Accrued vacation:				
Due within one year	-	2,334,166 (3)	-	2,334,166
Due in more than one year	<u>-</u>	<u>4,930,836</u> (3)	<u>-</u>	<u>4,930,836</u>
Total liabilities	<u>32,440,530</u>	<u>14,081,806</u>	<u>-</u>	<u>46,522,336</u>
<b>FUND BALANCES/NET ASSETS</b>				
Invested in capital assets, net of related debt	-	204,268,571 (1) 29,462,743 (1) (1,635)(1) (321,431)(1) (4,760)(1) (5,674,478)(1) (7,917,742)(2) 1,100,938 (2)	-	220,912,206
Reserved/Restricted for:				
Encumbrances	92,156,305	-	(92,156,305) (4)	-
Receivables	3,175,469	-	(3,175,469) (4)	-
Continuing appropriations	18,798,121	-	(18,798,121) (4)	-
Unexpended federal awards	26,368,308	-	(26,368,308) (4)	-
Unreserved/Unrestricted	<u>7,527,747</u>	<u>(7,265,002)(3)</u>	<u>140,498,203</u> (4)	<u>140,760,948</u>
Total fund balances/net assets	<u>148,025,950</u>	<u>213,647,204</u>	<u>-</u>	<u>361,673,154</u>
Total liabilities and fund balances/net assets	<u>\$180,466,480</u>	<u>\$227,729,010</u>	<u>\$ -</u>	<u>\$408,195,490</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, 2006

Total fund balances - governmental funds \$148,025,950

Amounts reported for governmental activities in the statement of net assets are different because:

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

Land improvements	\$ 78,190,718
Other capital assets	52,413,137
Accumulated depreciation	(85,542,527)
Land	141,517,878
Other capital assets, not depreciated	719,990
Construction-in-progress	<u>40,429,814</u>

Total capital assets 227,729,010

- (2) Bonds payable are not reported in the governmental funds. (6,816,804)
- (3) Accrued vacation is not reported in the governmental funds. (7,265,002)
- (4) Reclassify reserved fund balances/net assets to unrestricted fund balances/net assets. -

Total net assets \$361,673,154

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, 2006

	<u>Total Governmental Funds</u>	<u>Long-Term Assets, Liabilities</u>	<u>Reclassifications and Eliminations</u>	<u>Statement of Activities</u>
Revenues				
Appropriations	\$ 64,438,629	\$ -	\$(748,303) (5)	\$ 63,690,326
Intergovernmental revenues	25,055,804	-	-	25,055,804
General leases, licenses and permits	24,960,786	-	-	24,960,786
Taxes, fuel and others	21,692,341	-	-	21,692,341
Interest	2,283,989	-	-	2,283,989
Other	<u>309,375</u>	<u>714,000 (4)</u>	<u>-</u>	<u>1,023,375</u>
Total revenues	<u>138,740,924</u>	<u>714,000</u>	<u>(748,303)</u>	<u>138,706,621</u>
Expenditures				
Economic development	4,077,485	(250,941)(1) 8,241 (1) 245,274 (1) 65,709 (3)	-	4,145,768
Environmental protection	38,135,826	(1,307,668)(1) 1,634 (1) 43,088 (1) 4,760 (1) 2,156,943 (1) 608,901 (3)	-	39,643,484
Culture and recreation	25,525,145	(1,267,208)(1) 270,103 (1) 3,045,482 (1) 316,013 (3)	346,937 (6)	28,236,472
Public safety	499,252	80,872 (1) 4,640 (3)	-	584,764
Individual rights	3,629,198	91,655 (1) 33,760 (3)	-	3,754,613
Government-wide support	6,168,850	(22,866)(1) 54,253 (1) 43,035 (3)	-	6,243,272
Capital outlays	29,962,845	(25,900,060)(1)	-	4,062,785
Principal on long-term debt	1,100,938	(1,100,938)(2)	-	-
Interest on long-term debt	<u>346,937</u>	<u>-</u>	<u>(346,937) (6)</u>	<u>-</u>
Total expenditures	<u>109,446,476</u>	<u>(22,775,318)</u>	<u>-</u>	<u>86,671,158</u>
	<u>29,294,448</u>	<u>23,489,318</u>	<u>(748,303)</u>	<u>52,035,463</u>
Other financing sources (uses) and lapsed appropriations:				
Net operating transfers	(6,940,733)	-	-	(6,940,733)
Lapsed appropriations	<u>(748,303)</u>	<u>-</u>	<u>748,303 (5)</u>	<u>-</u>
Change in fund balances/net assets	<u>\$ 21,605,412</u>	<u>\$23,489,318</u>	<u>\$ -</u>	<u>\$ 45,094,730</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, 2006

Change in fund balances - governmental funds \$21,605,412

Amounts reported for governmental activities in the statement of activities are different because:

- (1) Capital outlays are reported as expenditures in governmental funds, however, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these outlays are:

Capital outlays and equipment purchases	\$28,748,743
Loss on disposal of equipment	(1,634)
Depreciation expense	(5,674,479)
Adjustment of costs, net of depreciation	(321,432)
Transfer-out of property and equipment	(4,760)
Completed construction projects, less than the capitalization threshold	-

Excess of capital outlays over depreciation expense 22,746,438

- |  |              |
|--|--------------|
| (2) Repayment of bond principal is reported as an expenditure in governmental funds, but the repayment reduces bonds payable in the statement of net assets. | 1,100,938    |
| (3) The increase in accrued vacation is not reported in governmental funds.  | (1,072,058)  |
| (4) The donated value of capital assets acquired is not reported in governmental funds.  | 714,000      |
| (5) Credit in lapsed appropriations are added to appropriations in the statement of activities.  | -            |
| (6) Reclassify interest on long-term debt to function.   | -            |
| Change in net assets   | \$45,094,730 |

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, 2006

	<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>
Appropriations	\$26,451,688	\$29,320,129	\$ -
Expenditures:			
Economic development	1,753,489	1,644,940	144,874
Environmental protection	17,123,710	17,015,971	314,020
Culture and recreation	7,440,858	9,065,147	649,722
Public safety	<u>133,631</u>	<u>147,830</u>	<u>337,625</u>
Total expenditures	<u>26,451,688</u>	<u>27,873,888</u>	<u>1,446,241</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ 1,446,241</u>	<u>\$ 1,446,241</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, 2006

	<u>Budgeted Amounts</u>		<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<u>Federal Grant Fund</u>				
Revenues	\$10,395,520	\$27,197,818	\$17,529,636	\$(9,668,182)
Expenditures:				
Economic development	724,995	5,454,064	4,377,613	1,076,451
Environmental protection	6,841,611	15,932,456	10,350,306	5,582,150
Culture and recreation	2,437,761	5,418,997	4,972,475	446,522
Public safety	318,519	319,667	358,304	(38,637)
Government-wide support	<u>72,634</u>	<u>72,634</u>	<u>21,297</u>	<u>51,337</u>
Total expenditures	<u>10,395,520</u>	<u>27,197,818</u>	<u>20,079,995</u>	<u>7,117,823</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$(2,550,359)</u>	<u>\$(2,550,359)</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, 2006

	Budgeted Amounts		Actual	Variance with
	Original	Final	(Budgetary Basis)	Final Budget - Positive (Negative)
<u>Special Land Development Fund</u>				
Revenues	\$ 5,853,470	\$ 7,026,989	\$ 13,881,013	\$ 6,854,024
Expenditures:				
Government-wide support	<u>5,853,470</u>	<u>7,026,989</u>	<u>6,830,006</u>	<u>196,983</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,051,007</u>	<u>\$ 7,051,007</u>
<u>Water and Land Development Fund</u>				
Revenues	\$ 110,000	\$ 110,000	\$ 21,744	\$ (88,256)
Expenditures:				
Economic Development	<u>110,000</u>	<u>110,000</u>	<u>13,000</u>	<u>97,000</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,744</u>	<u>\$ 8,744</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, 2006

	<u>Budgeted Amounts</u>	<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>(Budgetary Basis)</u>	<u>Final Budget -</u>
	<u>Final</u>		<u>Positive</u>
			<u>(Negative)</u>
<u>Natural Area Reserves Fund</u>			
Revenues	\$ 3,300,000	\$13,893,045	\$10,593,045
Expenditures:			
Environmental Protection	<u>3,300,000</u>	<u>3,576,370</u>	<u>(276,370)</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$10,316,675</u>	<u>\$10,316,675</u>
<u>Ocean-Based Recreation Fund</u>			
Revenues	\$15,371,690	\$11,192,861	\$(4,420,365)
Expenditures:			
Culture and recreation	<u>15,371,690</u>	<u>10,385,684</u>	<u>5,227,542</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ 807,177</u>	<u>\$ 807,177</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, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The accompanying financial statements present the financial position of the DLNR and the various funds and fund types and the changes in financial position of the DLNR and the various funds and fund types. The financial statements are presented as of June 30, 2006, 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.

DEPARTMENT OF LAND AND NATURAL RESOURCES  
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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.

DEPARTMENT OF LAND AND NATURAL RESOURCES  
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June 30, 2006

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, 2006, 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.

Special Land Development Fund – This fund is authorized under HRS §171-19 to receive and expend funds for services related to the planning, management and development of public lands and property under the jurisdiction of the State of Hawaii.

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.

Natural Area Reserve Fund – This fund was established by Act 326, SLH 1991 to receive and expend State and private funds to be used for services in support of native ecosystems protection and management programs that occur on State-owned and private lands. Supported programs include the Natural Area Heritage and Natural Area Partnership 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.

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Fiduciary Fund

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

Appropriations

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

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the governmental fund types. Encumbrances outstanding at fiscal year-end 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, 2006 was \$20,142,704.

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.



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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, 2006, 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 \$928,265 and \$330,281 in the general and major special revenue funds, respectively, for the period from June 16, 2006 through June 30, 2006, are to be funded with monies budgeted for fiscal 2007. In addition, at June 30, 2006, the DLNR accrued expenditures of \$78,612 and \$426,285 in the general and major special revenue funds, respectively, for certain goods and services received through June 30, 2006, which the DLNR will fund with monies budgeted for fiscal 2007. 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, 2006 in accordance with accounting principles generally accepted in the United States of America.

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In fiscal 2005 under Section 78-13 HRS, salaries and wages for the period from June 16, 2005 to June 30, 2005 were funded with monies budgeted for fiscal 2006. In addition, at June 30, 2005, the DLNR accrued certain salaries and wages for the period prior to June 16, 2005 and certain goods and services received through June 30, 2005, which the DLNR funded with monies budgeted for fiscal 2006. Accordingly, these amounts are included in the statements of revenues and expenditures - budget and actual, for the year ended June 30, 2006. These salaries, wages, goods and services aggregated \$769,374 and \$552,973 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, 2006.

	Major Special Revenue Funds					
	General Fund	Federal Grant Fund	Special Land Development Fund	Water and Land Development Fund	Natural Area Reserves Fund	Ocean-Based Recreation Fund
Excess of revenues over (under) expenditures - actual on budgetary basis	\$1,446,241	\$(2,550,359)	\$7,051,007	\$8,744	\$10,316,675	\$ 807,177
Current year's appropriations included in reserved for encumbrances at June 30, 2006	3,500,914	7,255,153	2,339,386	-	1,140,207	808,909
Expenditures for liquidation of prior years' encumbrances	(2,495,565)	(3,136,934)	(844,218)	-	(1,149,478)	(216,585)
Fiscal 2005 salaries and wages and other expenditures funded by fiscal 2006 budget	769,374	170,514	158,895	-	8,071	215,493
Fiscal 2006 salaries and wages funded by fiscal 2007 budget under Section 78-13 HRS	(928,265)	(128,381)	-	-	-	(201,900)
Fiscal 2006 expenditures funded by fiscal 2007 budget	<u>(78,612)</u>	<u>(121,817)</u>	<u>(238,182)</u>	<u>-</u>	<u>(3,695)</u>	<u>(62,591)</u>
Excess of revenues over (under) expenditures - GAAP basis	<u>\$2,214,087</u>	<u>\$ 1,488,176</u>	<u>\$8,466,888</u>	<u>\$8,744</u>	<u>\$10,311,780</u>	<u>\$1,350,503</u>

DEPARTMENT OF LAND AND NATURAL RESOURCES  
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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, 2006, the carrying amount, which approximates the bank balance of the DLNR's cash and short-term cash investments, was \$177,291,010 for its governmental funds and \$9,462,424 for its fiduciary funds.

4. RECEIVABLES

At June 30, 2006, 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	\$ 938,413	\$114,082	\$1,052,495
Less allowance for doubtful accounts	<u>(798,270)</u>	<u>(29,363)</u>	<u>(827,633)</u>
	<u>\$ 140,143</u>	<u>\$ 84,719</u>	<u>\$ 224,862</u>

The Department has installment agreements with certain lessees for accounts receivable of the trust and agency fund which aggregated \$308,693 at June 30, 2006. 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, 2006, receivables for general leases and licenses for fiduciary funds consisted of the following:

Rents, fees and licenses	\$989,259
Less allowance for doubtful accounts	<u>(270,985)</u>
	<u>\$718,274</u>

5. CAPITAL ASSETS

The changes in capital assets were as follows:

	<u>Beginning Balance</u> <u>July 1, 2005</u>	<u>Additions,</u> <u>Adjustments</u> <u>and Transfers</u>	<u>Disposals,</u> <u>Adjustments</u> <u>and Transfers</u>	<u>Ending</u> <u>Balance</u> <u>June 30, 2006</u>
Capital assets, not being depreciated -				
Land	\$138,737,878	\$ 2,780,000	\$ -	\$141,517,878
Land improvements	688,400	-	-	688,400
Construction-in-progress	22,908,750	24,700,059	(7,178,995)	40,429,814
Other assets	<u>31,590</u>	<u>-</u>	<u>-</u>	<u>31,590</u>
Total capital assets, not being depreciated	<u>162,366,618</u>	<u>27,480,059</u>	<u>(7,178,995)</u>	<u>182,667,682</u>
Capital assets, being depreciated -				
Buildings	31,916,103	251,663	(383,431)	31,784,335
Land improvements	70,404,468	7,786,250	-	78,190,718
Furniture and equipment	7,583,186	337,390	(111,016)	7,809,560
Motor vehicles	<u>12,329,407</u>	<u>853,014</u>	<u>(363,179)</u>	<u>12,819,242</u>
Total capital assets, being depreciated	<u>122,233,164</u>	<u>9,228,317</u>	<u>(857,626)</u>	<u>130,603,855</u>
Less: accumulated depreciation for -				
Buildings	(19,402,569)	(803,803)	62,000	(20,144,372)
Land improvements	(45,286,147)	(3,554,235)	-	(48,840,382)
Furniture and equipment	(5,207,697)	(553,548)	95,081	(5,666,164)
Motor vehicles	<u>(10,434,798)</u>	<u>(815,230)</u>	<u>358,419</u>	<u>(10,891,609)</u>
Total accumulated depreciation	<u>(80,331,211)</u>	<u>(5,726,816)</u>	<u>515,500</u>	<u>(85,542,527)</u>
Total capital assets, being depreciated, net	<u>41,901,953</u>	<u>3,501,501</u>	<u>(342,126)</u>	<u>45,061,328</u>
Capital assets, net	<u>\$204,268,571</u>	<u>\$30,981,560</u>	<u>\$(7,521,121)</u>	<u>\$227,729,010</u>

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Changes to capital assets consisted of the following:

Additions:	
Capital outlays and equipment purchases	\$29,462,743
Disposals:	
Disposed capital assets, at cost	\$ 360,382
Accumulated depreciation of disposed capital assets	<u>(358,747)</u>
Loss on disposal of capital assets	<u>\$ 1,635</u>
Adjustments:	
Reduce buildings for costs which should not have been capitalized, net of depreciation	<u>\$ 321,431</u>
Transfer-out of property and equipment	<u>\$ 4,760</u>
Other income from donated value of acquired capital assets	<u>\$ 714,000</u>

Depreciation expense for the year ended June 30, 2006, was charged to functions of the DLNR as follows:

Economic development	\$ 245,274
Environmental protection	2,156,943
Culture and recreation	3,045,482
Public safety	80,872
Individual rights	91,655
Government-wide support	<u>54,253</u>
	<u>\$5,674,479</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, 2005	\$6,192,943	\$7,917,742
Principal payments	-	(1,100,938)
Net increase in accrued vacation	<u>1,072,059</u>	<u>-</u>
Balance at June 30, 2006	<u>\$7,265,002</u>	<u>\$6,816,804</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, 2006 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	\$ 413,195
\$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	721,136

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<p>\$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</p>	<p>\$ 151,890</p>
<p>\$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</p>	<p>396,885</p>
<p>\$1,218,020 series CH bonds dated November 1, 1993; due in annual installments of \$67,673 through November 1, 2010 and \$67,649 through final payment on November 1, 2013; interest at 4.10% to 6.00% payable semi-annually</p>	<p>541,288</p>
<p>\$2,540,742 series CI refunding bonds dated November 1, 1993; due in annual installments of \$158,674; final payment on November 1, 2010; interest at 4.00% to 5.00% payable semi-annually</p>	<p>793,180</p>
<p>\$1,543,701 series CO bonds dated March 1, 1997; due in varying semi-annual installments; final payment on March 1, 2011; interest at 4.50% to 6.00% payable semi-annually</p>	<p>774,898</p>
<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, 2017; partially refunded \$11,135 by the issuance of refunding General Obligation Bonds, series CS, dated April 1, 1998; interest at 5.25% to 6.25% payable semi-annually; partially refunded \$67,711 by the issuance of refunding General Obligation Bonds series DG, dated June 15, 2005; interest at 6.00% to 6.25% payable semi-annually</p>	<p>21,796</p>

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<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>\$ 89</p>
<p>\$85,000 series CR bonds dated April 1, 1998; due in varying annual installments commencing April 1, 2006 through final payment on April 1, 2021; partially refunded \$63,399 by the issuance of refunding General Obligation Bonds, series DG, dated June 15, 2005; interest at 5.50% to 6.00% payable semi-annually</p>	<p>18,149</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>708,580</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, 2019; partially refunded \$87,215 by the issuance of refunding General Obligation Bonds, series DG, dated June 15, 2005; interest at 5.25% to 5.625% payable semi-annually</p>	<p>117,571</p>
<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>409,864</p>



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\$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	\$ 883,319
\$396,612 series DB bonds dated September 16, 2003; due in varying annual installments commencing September 1, 2008 through final payment on September 1, 2016; interest at 5.00% to 5.25% payable semi-annually	396,612
\$468,352 series DG bonds dated June 15, 2005; due in varying annual installments commencing July 1, 2009 through final payment on July 1, 2017; interest at 5.00% payable semi-annually	<u>468,352</u>
	<u>\$6,816,804</u>

Interest paid by the DLNR during the fiscal year ended June 30, 2006, approximated \$347,000.

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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,			
2007	\$1,153,819	\$ 295,243	\$1,449,062
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>\$6,816,804</u>	<u>\$1,092,604</u>	<u>\$7,909,408</u>

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7. RETIREMENT BENEFITS

Plan Description - All eligible employees of the State and counties are required by HRS Chapter 88 to become members of the Employees' Retirement System of the State of Hawaii (ERS), a cost-sharing multiple-employer 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.

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The State's contribution requirements as of June 30, 2005, 2004, and 2003 were approximately \$251,685,000, \$181,614,000, and \$158,622,000, respectively. The State contributed 100% of its required contributions for those years. 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, 2005 was approximately \$2,079,054,000.

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 25,000 state retirees receiving such benefits. Free life insurance coverage for retirees and free dental coverage for dependents under age 19 are also available. Retirees covered by the medical portion of Medicare are eligible to receive reimbursement of the basic medical coverage premium. Contributions are financed on a pay-as-you-go basis. During fiscal 2005, expenditures of \$177,691,000 were recognized for post-retirement health care and life insurance benefits, approximately \$35,876,000 of which is attributable to the Component Units.

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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, 2006 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 \$1,803,183 to the ERS for the fiscal year ended June 30, 2006. The entire ERS' actuarial determination of the employer contribution requirements were met as of June 30, 2006.

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, 2006 approximated \$235,700 and are reflected as expenditures of the general and special revenue funds. Amounts related to unpaid workers' compensation are reflected in the Statement of Net Assets. Expenditures for other insurance claims are made by the Department of Accounting and General Services, State of Hawaii, and are not reflected in the DLNR's financial statements. Workers' compensation benefit claims reported, as well as incurred but not reported were reviewed at year end. In the opinion of management, the estimated losses from these claims are not material.

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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 and capital projects funds are approximately \$8,754,000 of federal fund reimbursements received or receivable by the DLNR for program expenditures that were paid with previous year's general operating funds and \$514,000 of federal fund reimbursements received by the DLNR for the acquisition or construction of major capital facilities that were paid with the proceeds of general obligation bonds. Under Act 328 of the 1997 Regular Session, such monies are owed to the State Treasury.

Other - At June 30, 2006, 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, 2006, the DLNR's special revenue funds were charged by the Department of Transportation, State of Hawaii, approximately \$89,000 for services rendered during the year in connection with the Small Boat Harbors and Boat Ramps Program. At June 30, 2006, the DLNR owed the Department of Transportation, State of Hawaii, approximately \$32,000 for these services.

10. CENTRAL SERVICE AND ADMINISTRATION FEES

During the fiscal year ended June 30, 2006, the DLNR's special revenue funds were charged by the Department of Budget and Finance, State of Hawaii, approximately \$2,614,000 in central service and administration fees. At June 30, 2006, the DLNR owed the Department of Budget and Finance, State of Hawaii, approximately \$936,000 in unpaid fees.

DEPARTMENT OF LAND AND NATURAL RESOURCES  
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June 30, 2006

11. DUE TO OTHER STATE AGENCIES

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

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

As of June 30, 2006, DLNR has recorded a liability to OHA and the State of Hawaii in the Ocean-Based Recreation Fund of approximately \$2,289,000 for amounts due from ceded land revenues. The portion payable to the State amounts to approximately \$1,187,000 and is reported under due to State of Hawaii.

12. INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2006 consisted of the following:

Transfer To	Transfer From (To)						Total
	Federal Grant Fund	Special Land Development Fund	Natural Area Reserves Fund	Ocean-Based Recreation Fund	Nonmajor Governmental	Other Transfers, Net, Major Governmental	
Capital Projects Fund	\$100,164	\$ 500,000	\$ -	\$ -	\$ -	\$ -	\$ 600,164
Nonmajor Governmental	-	966,655	2,025,328	1,688,346	599,427	-	5,279,756
Other Transfers, Net; Major and Nonmajor Governmental	<u>612,858</u>	<u>-</u>	<u>-</u>	<u>(530,931)</u>	<u>(1,569,558)</u>	<u>2,548,444</u>	<u>1,060,813</u>
Total	<u>\$713,022</u>	<u>\$1,466,655</u>	<u>\$2,025,328</u>	<u>\$1,157,415</u>	<u>\$ (970,131)</u>	<u>\$2,548,444</u>	<u>\$6,940,733</u>

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

PART III  
SUPPLEMENTAL SECTION



DEPARTMENT OF LAND AND NATURAL RESOURCES  
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Combining Balance Sheet -  
Nonmajor Governmental Funds  
June 30, 2006

	Bureau of Conveyances Fund	Commercial Fisheries Fund	Forest Stewardship Fund	Aquatic Resources Fund	Forests and Wildlife Fund	Water Resources Fund	Conservation Resource Enforcement Fund	Historical Preservation Fund	Subtotal Carried Forward
<b>ASSETS</b>									
Cash and short-term cash investments held in State Treasury	\$1,847,475	\$346,668	\$930,257	\$81,562	\$1,123,080	\$1,008,161	\$ 64,939	\$ 10	\$5,402,152
Receivables:									
General leases and licenses, net of allowance for losses	-	-	-	-	-	-	-	-	-
Total assets	<u>\$1,847,475</u>	<u>\$346,668</u>	<u>\$930,257</u>	<u>\$81,562</u>	<u>\$1,123,080</u>	<u>\$1,008,161</u>	<u>\$ 64,939</u>	<u>\$ 10</u>	<u>\$5,402,152</u>
<b>LIABILITIES</b>									
Vouchers and contracts payable	\$ 64,548	\$ -	\$ 57,710	\$ -	\$ 201,431	\$ 12,343	\$ 53,840	\$ -	\$ 389,872
Accrued wages and employee benefits payable	184,626	3,720	2,900	-	11,981	7,047	141,817	9,813	361,904
Due to other State agencies	1,263,059	-	-	-	-	-	-	-	1,263,059
Deferred revenue	-	-	-	-	-	4,603	-	-	4,603
Total liabilities	<u>1,512,233</u>	<u>3,720</u>	<u>60,610</u>	<u>-</u>	<u>213,412</u>	<u>23,993</u>	<u>195,657</u>	<u>9,813</u>	<u>2,019,438</u>
<b>FUND BALANCES</b>									
Reserved for:									
Encumbrances	148,697	63,288	205,435	-	1,410,242	359,417	34,163	-	2,221,242
Receivables	-	-	-	-	-	-	-	-	-
Total reserved fund balances	<u>148,697</u>	<u>63,288</u>	<u>205,435</u>	<u>-</u>	<u>1,410,242</u>	<u>359,417</u>	<u>34,163</u>	<u>-</u>	<u>2,221,242</u>
Unreserved:									
Unreserved reported in nonmajor - Special revenue funds	<u>186,545</u>	<u>279,660</u>	<u>664,212</u>	<u>81,562</u>	<u>(500,574)</u>	<u>624,751</u>	<u>(164,881)</u>	<u>(9,803)</u>	<u>1,161,472</u>
Total unreserved fund balances	<u>186,545</u>	<u>279,660</u>	<u>664,212</u>	<u>81,562</u>	<u>(500,574)</u>	<u>624,751</u>	<u>(164,881)</u>	<u>(9,803)</u>	<u>1,161,472</u>
Total fund balances	<u>335,242</u>	<u>342,948</u>	<u>869,647</u>	<u>81,562</u>	<u>909,668</u>	<u>984,168</u>	<u>(130,718)</u>	<u>(9,803)</u>	<u>3,382,714</u>
Total liabilities and fund balances	<u>\$1,847,475</u>	<u>\$346,668</u>	<u>\$930,257</u>	<u>\$81,562</u>	<u>\$1,123,080</u>	<u>\$1,008,161</u>	<u>\$ 64,939</u>	<u>\$ 10</u>	<u>\$5,402,152</u>

DEPARTMENT OF LAND AND NATURAL RESOURCES  
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Combining Balance Sheet -  
Nonmajor Governmental Funds  
June 30, 2006

	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
<b>ASSETS</b>												
Cash and short-term cash investments held in State Treasury	\$5,402,152	\$715,150	\$366,770	\$107,928	\$1,885	\$3,201,019	\$58,299	\$3,164	\$13,000	\$571,893	\$126,373	\$10,567,633
Receivables:												
General leases and licenses, net of allowance for losses	-	-	-	-	-	-	-	-	-	-	-	-
Total assets	<u>\$5,402,152</u>	<u>\$715,150</u>	<u>\$366,770</u>	<u>\$107,928</u>	<u>\$1,885</u>	<u>\$3,201,019</u>	<u>\$58,299</u>	<u>\$3,164</u>	<u>\$13,000</u>	<u>\$571,893</u>	<u>\$126,373</u>	<u>\$10,567,633</u>
<b>LIABILITIES</b>												
Vouchers and contracts payable	\$ 389,872	\$ 39,617	\$ 75,741	\$ 13,249	\$ -	\$ 283,942	\$ 3,807	\$ -	\$ -	\$ -	\$ -	\$ 806,228
Accrued wages and employee benefits payable	361,904	16,668	22,419	-	-	68,426	24,675	-	-	-	-	494,092
Due to other State agencies	1,263,059	-	-	-	-	2,884	-	-	-	-	-	1,265,943
Deferred revenue	4,603	-	-	-	-	74,092	-	-	-	-	-	78,695
Total liabilities	<u>2,019,438</u>	<u>56,285</u>	<u>98,160</u>	<u>13,249</u>	<u>-</u>	<u>429,344</u>	<u>28,482</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,644,958</u>
<b>FUND BALANCES</b>												
Reserved for:												
Encumbrances	2,221,242	67,704	89,143	7,982	-	1,589,277	362	-	-	420,839	-	4,396,549
Receivables	-	-	-	-	-	-	-	-	-	-	-	-
Total reserved fund balances	<u>2,221,242</u>	<u>67,704</u>	<u>89,143</u>	<u>7,982</u>	<u>-</u>	<u>1,589,277</u>	<u>362</u>	<u>-</u>	<u>-</u>	<u>420,839</u>	<u>-</u>	<u>4,396,549</u>
Unreserved:												
Unreserved reported in nonmajor - Special revenue funds	1,161,472	591,161	179,467	86,697	1,885	1,182,398	29,455	3,164	13,000	151,054	126,373	3,526,126
Total unreserved fund balances	<u>1,161,472</u>	<u>591,161</u>	<u>179,467</u>	<u>86,697</u>	<u>1,885</u>	<u>1,182,398</u>	<u>29,455</u>	<u>3,164</u>	<u>13,000</u>	<u>151,054</u>	<u>126,373</u>	<u>3,526,126</u>
Total fund balances	<u>3,382,714</u>	<u>658,865</u>	<u>268,610</u>	<u>94,679</u>	<u>1,885</u>	<u>2,771,675</u>	<u>29,817</u>	<u>3,164</u>	<u>13,000</u>	<u>571,893</u>	<u>126,373</u>	<u>7,922,675</u>
Total liabilities and fund balances	<u>\$5,402,152</u>	<u>\$715,150</u>	<u>\$366,770</u>	<u>\$107,928</u>	<u>\$1,885</u>	<u>\$3,201,019</u>	<u>\$58,299</u>	<u>\$3,164</u>	<u>\$13,000</u>	<u>\$571,893</u>	<u>\$126,373</u>	<u>\$10,567,633</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, 2006

	Bureau of Conveyances Fund	Commercial Fisheries Fund	Forest Stewardship Fund	Aquatic Resources Fund	Forests and Wildlife Fund	Water Resources Fund	Conservation Resource Enforcement Fund	Historical Preservation Fund	Subtotal Carried Forward
Revenues									
General leases, licenses and permits	\$4,867,943	\$205,677	\$118,390	\$ -	\$ -	\$ 59,850	\$ -	\$72,850	\$ 5,324,710
Taxes, fuel and others	-	-	550,000	-	-	-	-	-	550,000
Interest	68,789	12,103	17,432	2,420	36,114	21,471	495	169	158,993
Other	-	-	9,310	-	12,891	16,214	18,999	-	57,414
Total revenues	<u>4,936,732</u>	<u>217,780</u>	<u>695,132</u>	<u>2,420</u>	<u>49,005</u>	<u>97,535</u>	<u>19,494</u>	<u>73,019</u>	<u>6,091,117</u>
Expenditures									
Current:									
Economic development	-	280,555	365,028	-	-	-	-	-	645,583
Environmental protection	-	-	-	-	1,588,016	252,989	1,618,762	-	3,459,767
Culture and recreation	-	-	-	-	-	-	-	75,233	75,233
Individual rights	3,629,198	-	-	-	-	-	-	-	3,629,198
Government-wide support	-	-	-	-	-	-	-	-	-
Total expenditures	<u>3,629,198</u>	<u>280,555</u>	<u>365,028</u>	<u>-</u>	<u>1,588,016</u>	<u>252,989</u>	<u>1,618,762</u>	<u>75,233</u>	<u>7,809,781</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,307,534</u>	<u>(62,775)</u>	<u>330,104</u>	<u>2,420</u>	<u>(1,539,011)</u>	<u>(155,454)</u>	<u>(1,599,268)</u>	<u>(2,214)</u>	<u>(1,718,664)</u>
Other financing sources (uses)									
Operating transfers in	470,448	222,953	396,630	79,142	1,517,521	811,847	1,567,846	1,773	5,068,160
Operating transfers out	(3,485,590)	(232,059)	(396,630)	(79,142)	(24,785)	(405,507)	(806)	(1,773)	(4,626,292)
Total other financing sources (uses)	<u>(3,015,142)</u>	<u>(9,106)</u>	<u>-</u>	<u>-</u>	<u>1,492,736</u>	<u>406,340</u>	<u>1,567,040</u>	<u>-</u>	<u>441,868</u>
Net change in fund balances	<u>(1,707,608)</u>	<u>(71,881)</u>	<u>330,104</u>	<u>2,420</u>	<u>(46,275)</u>	<u>250,886</u>	<u>(32,228)</u>	<u>(2,214)</u>	<u>(1,276,796)</u>
Fund balances at July 1, 2005	<u>2,042,850</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>(7,589)</u>	<u>4,659,510</u>
Fund balances at June 30, 2006	<u>\$ 335,242</u>	<u>\$342,948</u>	<u>\$869,647</u>	<u>\$81,562</u>	<u>\$ 909,668</u>	<u>\$984,168</u>	<u>\$ (130,718)</u>	<u>\$ (9,803)</u>	<u>\$ 3,382,714</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, 2006

	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 Kikakakeoka Trust Fund	Endangered Species Trust Fund	Total Other Government Funds
<b>Revenues</b>												
General leases, licenses and permits	\$5,324,710	\$119,724	\$380,869	\$40,364	\$ -	\$ 2,006,994	\$ -	\$ -	\$ -	\$ -	\$ -	\$7,872,661
Taxes, fuel and others	550,000	249,307	-	-	-	-	-	-	-	-	-	799,307
Interest	138,993	19,803	12,760	3,184	-	139,054	-	-	-	34,831	2,623	371,248
Other	57,414	3	455	2,045	-	745	1,357	-	13,000	-	123,750	198,769
<b>Total revenues</b>	<b>6,091,117</b>	<b>388,837</b>	<b>394,084</b>	<b>45,593</b>	<b>-</b>	<b>2,146,793</b>	<b>1,357</b>	<b>-</b>	<b>13,000</b>	<b>34,831</b>	<b>126,373</b>	<b>9,241,985</b>
<b>Expenditures</b>												
Current:												
Economic development	645,583	-	-	-	-	-	-	-	-	-	-	645,583
Environmental protection	3,459,767	-	-	-	-	-	431,723	-	10,111	-	88,638	3,990,239
Culture and recreation	75,233	435,107	512,702	26,404	577,850	2,709,879	-	-	-	-	-	4,337,175
Individual rights	3,629,198	-	-	-	-	-	-	-	-	-	-	3,629,198
Government-wide support	-	-	-	-	-	-	-	-	-	733,429	-	733,429
<b>Total expenditures</b>	<b>7,809,781</b>	<b>435,107</b>	<b>512,702</b>	<b>26,404</b>	<b>577,850</b>	<b>2,709,879</b>	<b>431,723</b>	<b>-</b>	<b>10,111</b>	<b>733,429</b>	<b>88,638</b>	<b>13,335,624</b>
Excess (deficiency) of revenues over (under) expenditures	(1,718,664)	(46,270)	(118,618)	19,189	(577,850)	(563,086)	(430,366)	-	2,889	(698,598)	37,735	(4,093,639)
Other financing sources (uses)												
Operating transfers in	5,068,160	702,326	270,851	75,611	557,013	1,868,836	467,840	-	10,111	116,223	88,638	9,225,609
Operating transfers out	(4,626,292)	(602,326)	(282,851)	(75,611)	(3,549)	(2,429,853)	(20,024)	-	(10,111)	(116,223)	(88,638)	(8,255,478)
<b>Total other financing sources (uses)</b>	<b>441,868</b>	<b>100,000</b>	<b>(12,000)</b>	<b>-</b>	<b>553,464</b>	<b>(561,017)</b>	<b>447,816</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>970,131</b>
Net change in fund balances	(1,276,796)	53,730	(130,618)	19,189	(24,386)	(1,124,103)	17,450	-	2,889	(698,598)	37,735	(3,123,508)
Fund balances at July 1, 2005	4,659,510	605,135	399,228	75,490	26,271	3,895,778	12,367	3,164	10,111	1,270,491	88,638	11,046,183
Fund balances at June 30, 2006	\$3,382,714	\$658,865	\$268,610	\$94,679	\$1,885	\$2,771,675	\$29,817	\$3,164	\$13,000	\$571,893	\$126,373	\$7,922,675

DEPARTMENT OF LAND AND NATURAL RESOURCES  
STATE OF HAWAII  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2006

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	\$ -
Managing Chronic Wasting Disease in Free- Ranging Cervids	10.025	04-9715-1257-CA	53,571	4,261
Plant, Pest and Animal Disease Control	10.025	05-9715-1400-CA	53,571	8,853
			<u>151,742</u>	<u>13,114</u>
Forest Service -				
Urban and Community Forestry	10.664	03-DG-11052021-056	400,000	25,438
Cooperative Forestry Assistance- Prevention and Suppression	10.664	03-DG-11052021-084	410,000	100
Cooperative Forestry Assistance- State Fire Assistance, Volunteer Fire Assistance	10.664	03-DG-11052012-106	500,000	-
Cooperative Forestry Assistance- Forest Land Enhancement Program	10.664	03-DG-11052021-119	100,000	52,688
Conservation Education	10.664	04-DG-11052021-059	15,000	7,697
Forest Health Protection, Prevention and Suppression	10.664	04-DG-11052021-089	547,000	247,481
Cooperative Forest Health Protection	10.664	04-DG-11052021-090	122,000	35,077
Wildland Urban Interface	10.664	04-DG-11052012-093	246,750	131,973
Cooperative Fire Protection Program	10.664	04-DG-11052012-094	664,000	314,760
Development of Conservation Literacy Curriculum - K-12	10.664	05-DG-11052021-065	15,000	14,900
Wildland Urban Interface	10.664	05-DG-11052012-134	350,000	85,248
Forest Health Protection, Protection - Genetic Preservation of Wiliwili Trees in Hawaii	10.664	06-DG-11052021-104	20,000	8,287
			<u>3,389,750</u>	<u>923,649</u>
Rural Development, Forestry and Communities- Utilization Marketing	10.672	03-DG-11052021-071	50,000	-
Rural Development Through Forestry	10.672	04-DG-11052021-060	27,600	26,328
Rural Development Through Forestry	10.672	05-DG-11052021-071	70,650	48,547
Cooperative Fire Protection Program	10.672	05-DG-11052012-135	620,000	420,000
			<u>768,250</u>	<u>494,875</u>
Urban & Community Forestry	10-675	04-DG-11052021-091	428,000	206,876
Urban & Community Forestry	10-675	05-DG-11052021-110	348,000	94,257
			<u>776,000</u>	<u>301,133</u>
Forest Legacy Program	10-676	04-DG-11052021-048	10,000	-
Forest Legacy Program	10-676	05-DG-11052021-085	30,000	29,900
			<u>40,000</u>	<u>29,900</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, 2006

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 Lands Enhancement Program	10-677	05-DG-11052021-124	\$ 62,300	\$ 34,491
Forest Stewardship Program	10-678	04-DG-11052021-088	197,600	-
Forest Stewardship Program	10-678	05-DG-11052021-118	125,000	120,000
			<u>322,600</u>	<u>120,000</u>
Forest Health Protection	10-680	05-DG-11052021-070	547,000	90,401
Forest Health Protection	10-680	05-DG-11052021-064	112,296	58,773
			<u>659,296</u>	<u>149,174</u>
Natural Resources Conservation Service Wildlife Habitat Incentives Program	10-UNK	72-9251-5A-163	80,642	-
Total U.S. Department of Agriculture			<u>6,250,580</u>	<u>2,066,336</u>
<u>U.S. Department of Commerce</u>				
National Oceanic and Atmospheric Administration - Direct Programs:				
Maintenance of Web-Based Internet Commercial Marine Licensing System for the State of Hawaii	11.407	NA04NMF4070127	71,636	20,085
Hawaii Coral Reef Management Program	11.419	NA-16OZ2441	360,000	115,175
Hawaii Coral Reef Management Program	11.419	NA03NOS4190210	347,200	211,743
Hawaii Coral Reef Management Program	11.419	NA04NOS4190111	450,000	134,335
Acquisition of 1,129 Acres on Oahu Known as Pupukea-Paumalu	11.419	NA04NOS4190196	1,978,955	-
Hawaii Coral Reef Management Program	11.419	NA05NOS4191014	420,768	60,138
Acquisition of 225 Acres on Hawaii Island Known as Honu'apo Estuary	11.419	NA05NOS4191259	1,464,735	1,464,735
			<u>5,021,658</u>	<u>1,986,126</u>
Hawaii Coral Reef Monitoring Program	11.426	NA03NOS4260112	115,000	37,524
Coral Reef Monitoring	11.426	NA04NOS4260296	108,000	13,844
Hawaii Coral Reef Monitoring Program	11.426	NA05NOS4261189	125,000	46,424
			<u>348,000</u>	<u>97,792</u>
Northwest Hawaiian Islands Coral Reef Ecosystem Reserve	11.429	MOA-2001-675	830,000	131,120

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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, 2006

Federal Grantor/ Pass-through Grantor/Program Title	Federal CFDA Number	Grant Number	Grant Award	Federal Expenditures
<u>U.S. Department of Commerce (Continued)</u>				
An Investigation of the Current Status of the Hawaiian Black Coral Fishery Using Historical and New Perspectives	11.430	NA04OAR3000141	\$ 51,240	\$ 16,850
Collect and Provide Fisheries Data Under the Hawaii Marine Recreational Fishing Survey	11.437	NA04NMF4370068	386,667	98,445
Collect and Provide Fisheries Data Under the Western Pacific Fisheries Information Network	11.437	NA04NMF4370142	234,000	91,694
			<u>620,667</u>	<u>190,139</u>
Fisheries Disaster Relief Program	11.452	NA03NMF4520452	5,000,000	583,904
Kaipukaiaola - A Partnership to Provide Meaningful Outdoor Experience to Pre-service and In-service Teachers about Kaho'olawe	11.473	NA06NOS4730014	99,900	-
Subtotal Direct Programs			<u>12,043,101</u>	<u>3,026,016</u>
Pass-Through Programs From:				
The Department of Business, Economic Development and Tourism, State of Hawaii - Comprehensive Plan to Prevent the Introduction and Dispersal of Alien Aquatic Organisms	11.419	SOH-DBEDT 51678	55,205	2,205
Ocean Recreation User Conflicts	11.419	SOH-DBEDT 54106	50,000	30,000
			<u>105,205</u>	<u>32,205</u>
Subtotal Pass-Through Programs			<u>105,205</u>	<u>32,205</u>
Total U.S. Department of Commerce			<u>12,148,306</u>	<u>3,058,221</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	3,739,317
Total U.S. Department of Defense			<u>44,014,410</u>	<u>3,739,317</u>
<u>U.S. Department of the Interior</u>				
Fish and Wildlife Service - Construct Loading Dock "A" for Kahului Boat Launch Ramp Facility, Kahului, Maui	15.605	F-19-B-32	825,000	100
Replacement of Comfort Station at Heeia-Kea Small Boat Harbor	15.605	F-19-B-33	187,500	13,318

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, 2006

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>				
Pohoiki Boat Ramp and Loading Dock	15.605	F-19-B-35	\$ 97,500	\$ 14,042
Statewide Freshwater Fisheries Development	15.605	F-11-D-29	261,000	26,358
Statewide Marine Fisheries Development	15.605	F-12-D-29	668,875	96,499
Coordination of Statewide Sports Fish Restoration Program	15.605	F-13-C-29	35,250	100
Statewide Freshwater Fisheries Technical Guidance	15.605	F-15-T-29	24,000	945
Statewide Marine Fisheries Technical Guidance	15.605	F-16-T-29	60,000	2,111
Freshwater Fisheries Research and Surveys	15.605	F-14-R-29	302,250	53,129
Statewide Marine Research and Surveys	15.605	F-17-R-29	681,750	121,795
Aquatic Resources Education	15.605	F-18-AE-18	180,000	100
Manele Small Boat Harbor Maintenance Dredging Loading Dock Replacement at the Waianae Small Boat Harbor, Waianae, Oahu	15.605	F-19-B-36	60,000	-
Statewide Freshwater Fisheries Development	15.605	F-11-D-30	261,000	260,900
Waikaea Boat Ramp Dredging and Revetment and Repair	15.605	F-19-B-38	45,000	3,787
Statewide Marine Fisheries Development	15.605	F-12-D-30	800,500	650,450
Coordination of Statewide Sports Fish Restoration Program	15.605	F-13-C-30	82,614	45,741
Freshwater Fisheries Research and Surveys	15.605	F-14-R-30	208,500	153,483
Statewide Freshwater Fisheries Technical Guidance	15.605	F-15-T-30	24,000	16,079
Statewide Marine Fisheries Technical Guidance	15.605	F-16-T-30	60,000	60,000
Statewide Marine Research and Surveys	15.605	F-17-R-30	675,000	383,789
Aquatic Resources Education	15.605	F-18-AE-19	180,000	176,232
Design for the Maintenance Dredging and Minor Loading Dock Repair at Kihei and Mala Boat Ramps, Maui, Hawaii	15.605	F-19-B-39	187,500	-
			5,928,239	2,097,299
Hawaii Year One Aquatic Invasive Species	15.608	1220-04-G029	199,926	58,057
Updating Hunter Education Classes	15.608	1220-04-G017	30,000	-
			229,926	58,057
Conservation Education Facility, Waimea	15.611	FW-1-DE-1	857,000	604,848
Hawaii Game Management Program	15.611	W-22-G-9	610,348	32,676
Hawaii Non-Game Management Program	15.611	W-23-NG-10	215,158	1,286
Hawaii Game Management Program	15.611	W-22-G-10	610,498	129,955
Hawaii Hunter Education Program	15.611	W-21-HS-28	408,375	76,656
Conservation Management - Kauai Hunting Units	15.611	1220-04-G018	77,500	15,188
Mokihana Ridge - Waialae Trail Project	15.611	1220-04-G030	20,000	2

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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, 2006

Federal Grantor/ Pass-through Grantor/Program Title	Federal CFDA Number	Grant Number	Grant Award	Federal Expenditures
<u>U.S. Department of the Interior (Continued)</u>				
Hawaii Hunter Education Program	15.611	W-21-HS-29	\$ 382,125	\$ 240,287
Hawaii Game Management Program	15.611	W-22-G-11	610,498	491,356
Hawaii Non-Game Management Program	15.611	W-23-NG-11	215,158	208,913
			<u>4,006,660</u>	<u>1,801,167</u>
Pouhala Marsh Protection & Restoration, Ph 2	15.614	C-2	260,000	25,457
Ilio Point Coastal Ecosystem Restoration, Ph 1	15.614	122001G007	8,128	2,988
Mokulua Seabird Sanctuary Soil Stabilization	15.614	122001G009	15,927	145
			<u>284,055</u>	<u>28,590</u>
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	50,004
Recovery Land Acquisition Program Grants	15.615	E-6-RL-1	150,000	-
Habitat Conservation Plan Grants - Development of HCPs	15.615	E-5-HP-1	517,134	108,662
Safe Harbor Grants - Development of Safe Harbor Agreements	15.615	E-3-SH-1	1,147,186	43,010
Endangered Maui Forest Bird	15.615	122002J002	642,948	86,506
Statewide Endangered Plant Program	15.615	E-2-MP-4	649,950	33,980
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	5,426
Statewide Endangered Wildlife Program	15.615	E-2-6	561,108	34,292
Statewide Endangered Plant Program	15.615	E-2-MP-5	598,033	22,197
Coordination and Planning of Programmatic HCP for E&T Seabirds on Kauai, Hawaii	15.615	E-8-HP-1	148,989	35,520
Statewide Endangered Plant Program	15.615	E-2-MP-6	545,332	68,290
Statewide Endangered Wildlife Program	15.615	E-2-7	471,000	323,987
ESA Section 6, Recovery Land Acquisition Program, Manana Valley Protection	15.615	E-9-RL-1	900,000	866,000
Statewide Endangered Wildlife Program	15.615	E-2-8	505,533	152,758
Statewide Endangered Plant Program	15.615	E-2-MP-7	579,863	389,137
Recovery Land Acquisition; Carlsmith Trust Property	15.615	E-10-RL-1	875,000	240
Recovery Land Acquisition; Moanalua Valley Watershed Protection and Habitat Restoration	15.615	E-11-RL-1	1,634,364	3
Recovery Land Acquisition; Manuka Natural Area Reserve Inholding Acquisition	15.615	E-12-RL-1	78,750	6
			<u>11,826,634</u>	<u>2,220,018</u>
Statewide Clean Vessel Program	15.616	F-V-1-1	623,000	72,720

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, 2006

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>				
Kaena Point Seabird Habitat Restoration	15.617	P-3-MP	\$ 50,000	\$ 1,560
Construction of Tie-up Facilities for Transient Vessels at Ala Wai Small Boat Harbor, Oahu, Hawaii	15.622	Y-4-D-1	100,000	-
Construction of Tie-up Facilities for Transient Vessels at Ala Wai Small Boat Harbor, Oahu, Hawaii	15.622	Y-5-D-1	100,000	-
			<u>200,000</u>	<u>-</u>
Hawaii Wildlife Conservation & Restoration Program	15.625	R-1-CMRE-1	<u>358,683</u>	<u>100</u>
Ulupalakua Ranch - Kanaio Fence & Habitat Restoration	15.631	122001G012	50,000	-
Kauai Bog Endangered Species Management	15.631	122004G032	64,884	8,232
Preventing the Extinction of Hawaii's Rarest Plants	15.631	122005G007	60,000	1,817
Helemano Watershed Management Project	15.631	122005G014	38,785	-
Hilo Forest Reserve Feral Cattle Hunt	15.631	122005G012	29,850	11,195
Review and Assessment of Methodologies to Control Non-Native Game Mammals	15.631	122005G014	15,000	3,564
Kohala Mountain Watershed Management	15.631	122005G011	15,000	6,734
			<u>273,519</u>	<u>31,542</u>
Landowner Incentive Program, Tier 1	15.633	I-1-1	180,000	18,349
Landowner Incentive Program, Tier 2	15.633	I-2-1	1,551,750	533,285
Landowner Incentive Program, Tier 1	15.633	I-3-1	180,000	31,198
Landowner Incentive Program, Tier 2	15.633	I-4-D-1	1,120,000	2,011
			<u>3,031,750</u>	<u>584,843</u>
State Wildlife Grant Program	15.634	T-1-P-1	236,060	56,268
Statewide Wildlife Grant Program	15.634	T-2-I-1	389,940	16,729
Native Dryland and Mesic Forest Protection and Restoration	15.634	U-2-M-1	501,270	39,027
State Wildlife Grant Program I; Planning and Coordination of Statewide Program of Terrestrial Wildlife Conservation	15.634	T-1-P-2	175,420	49,802
State Wildlife Grant Program II; Implementation of Statewide Program of Terrestrial Wildlife Conservation	15.634	T-2-2	407,340	47,189

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, 2006

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>				
Planning and Coordination of Statewide Program for Aquatic Wildlife Conservation	15.634	T-3-P-1	\$ 150,000	\$ 114,053
State Wildlife Grant Program I	15.634	T-1-P-3	188,000	51,283
State Wildlife Grant Program II	15.634	T-2-3	424,020	118,962
State Wildlife Grant Program I; Planning and Coordination of Statewide Program of Terrestrial Wildlife Conservation	15.634	T-1-P-4	198,000	88,922
State Wildlife Grant Program II; Planning and Coordination of Statewide Program of Terrestrial Wildlife Conservation	15.634	T-2-4	422,887	74,327
			<u>3,092,937</u>	<u>656,562</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	4
Ahupua'a Pu'u Wa'awa'a Coordination	15.FFB	122003G014	60,000	26,494
Axis Deer Control on the Island of Maui	15.FFB	122003G029	60,000	38,032
Kahakuloa Natural Area Reserve / Game Management Area Fencing Project	15.FFB	122003G035	100,000	10,582
East Maui Watershed - Habitat Restoration and Protection	15.FFB	122003G030	23,520	12,633
Mauna Kea Feral Ungulate Removal	15.FFB	122003J003	25,000	100
Humuula Trail	15.FFB	122003G034	8,880	100
Kau Forest Reserve	15.FFB	122003G033	22,000	5
Alala Conservation Cooperative Initiative	15.FFB	122003G037	35,000	97
Mauna Kea Forest Reserve Fence Repair: Northwest Section	15.FFB	122003G038	92,000	2
Pacific Island Cooperation for Shared Species	15.FFB	2005-005-008	7,395	7,395
			<u>692,113</u>	<u>96,661</u>
Living Reef Public Awareness Campaign	15.UNK	101603G001	<u>10,650</u>	<u>8,665</u>
National Park Service -				
Fiscal Year 2004 Historic Preservation Annual Grant	15.904	15-04-19312	475,537	-
Fiscal Year 2005 Historic Preservation Annual Grant	15.904	15-05-20413	481,180	433,061
Fiscal Year 2006 Historic Preservation Annual Grant	15.904	15-06-21514	482,959	183,421
			<u>1,439,676</u>	<u>616,482</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, 2006

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>				
Wailea Restroom, Hapuna Beach State Recreation Area	15.916	15-00142	\$ 217,455	\$ 113,941
Lahaina Recreation Center Expansion	15.916	15-00143	220,000	220,000
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	408,500
Keolonahihi State Historical Park, North Kona, Hawaii	15.916	15-00150	600,000	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	-
Diamond Head State Monument, Oahu, Hawaii	15.916	15-00149	200,000	-
Acquisition of Honu'apo, Whittington Beach Park, County of Hawaii	15.916	15-00153	267,632	-
			<u>3,222,911</u>	<u>1,342,441</u>
Management and Conservation of Nene Habitat	15.ABN	H8080010002	85,500	2,809
Total U.S. Department of the Interior			<u>35,356,253</u>	<u>9,619,516</u>
<u>U.S. Department of Justice</u>				
Drug Enforcement Administration -				
Direct Programs:				
Domestic Cannabis Eradication/Suppression	16.579	LOA 2005-56	469,784	294,303
Domestic Cannabis Eradication/Suppression	16.579	LOA 2006-59	462,576	196,890
			<u>932,360</u>	<u>491,193</u>
Subtotal Direct Programs			<u>932,360</u>	<u>491,193</u>
Office of Justice Programs -				
Pass-Through Program From:				
The Department of the Attorney General, Crime Prevention and Justice Assistance Division, State of Hawaii -				
Maritime Intelligence & Enforcement Program	16.579	SOH-AG 04-DB-07	150,000	86,249
Subtotal Pass-Through Programs			<u>150,000</u>	<u>86,249</u>
Total U.S. Department of Justice			<u>1,082,360</u>	<u>577,442</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, 2006

Federal Grantor/ Pass-through Grantor/Program Title	Federal CFDA Number	Grant Number	Grant Award	Federal Expenditures
<u>U.S. Department of Transportation</u>				
Federal Highway Administration -				
Direct Programs:				
Na Ala Hele Trail & Access System	20.219	NRT-NRT I(008)	\$ 530,738	\$ -
Na Ala Hele Trail & Access System	20.219	NRT-NRT I(009)	625,284	625,184
Na Ala Hele Trail & Access System	20.219	NRT-NRT I(010)	653,669	-
			<u>1,809,691</u>	<u>625,184</u>
Subtotal Direct Programs			<u>1,809,691</u>	<u>625,184</u>
Federal Highway Administration -				
Pass-Through Programs From:				
The Department of Transportation, State of Hawaii -				
Ka Iwi Scenic Shoreline	20.205	SOH-DOT-STP-072-1(46)	<u>5,159,006</u>	<u>3,994,050</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	106,245
Ferry Boat Acquisition and Pier Improvements	20.500	SOH-DOT HI-03-0034-00	7,460,000	207,651
Ferry Commuter Pier Improvements	20.500	SOH-DOT HI-03-0038-00	14,684,170	120,509
			<u>22,552,170</u>	<u>434,405</u>
Subtotal Pass-Through Programs			<u>27,711,176</u>	<u>4,428,455</u>
Total U.S. Department of Transportation			<u>29,520,867</u>	<u>5,053,639</u>
<u>Environmental Protection Agency</u>				
Wetlands Protection Development -				
Direct Programs:				
Wetlands Protection Development - Hamakua Monitoring and Restoration	66.461	CD-97955301-0	75,000	17,106
Wetlands Protection Development - Plant Field Guide	66.461	CD-96911601	93,750	30,216
			<u>168,750</u>	<u>47,322</u>
Subtotal Direct Programs			<u>168,750</u>	<u>47,322</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, 2006

Federal Grantor/ Pass-through Grantor/Program Title	Federal CFDA Number	Grant Number	Grant Award	Federal Expenditures
<u>Environmental Protection Agency (Continued)</u>				
Nonpoint Source Management Program - Pass-Through Programs From:				
The Department of Health, State of Hawaii -				
Moa'ulaiki Watershed Restoration	66.460	SOH-DOH ASO No. 04-184	\$ 388,220	\$ 127,573
Polluted Runoff Control Program	66.460	SOH-DOH ASO No. 06-054	1,500,000	91,805
Polluted Runoff Control Program	66.460	SOH-DOH ASO No. 06-182	150,000	13
Subtotal Pass-Through Programs			2,038,220	219,391
Total Environmental Protection Agency			2,206,970	266,713
<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	-
Hawaii Youth Conservation Corps	94.006	SOH-UH RCUH Z707181	136,399	95,175
Hawaii Youth Conservation Corps	94.006	SOH-UH RCUH Z770004	168,792	108,144
			442,691	203,319
Total Pass-Through Programs			442,691	203,319
Total Corporation for National and Community Service			442,691	203,319
<u>U.S. Department of Homeland Security</u>				
Direct Programs:				
U.S. Coast Guard -				
Recreational Boating Safety Program	97.012	15.01.15	479,102	(97,763)
Recreational Boating Safety Program	97.012	16.01.15	1,106,745	275,433
			1,585,847	177,670
Federal Emergency Management Agency -				
Community Assistance Program	97.023	EMF-2005-GR-0503	72,640	21,453
Community Assistance Program	97.023	EMF-2006-GR-0603	72,640	55,468
			145,280	76,921
National Dam Safety Grant Program	97.041	EMW-2003-GR-0350	80,018	42,634

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, 2006

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>				
Map Modernization Support Program	97.070	EMF-2005-GR-0506	\$ 120,000	\$ 726
Flood Map Modernization Management Support	97.070	EMF-2006-GR-0610	25,000	4,300
			<u>145,000</u>	<u>5,026</u>
Subtotal Direct Programs			<u>1,956,145</u>	<u>302,251</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	32,686
March 2006 Flood	97.036	SOH-DOD FEMA-1640-DR-HI	231,710	231,710
			<u>321,767</u>	<u>264,396</u>
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	SHSGP Part II	300,000	196,269
FY 2005 State Homeland Security Grant	97.067	SOH-DOD FY2005 SHSGP	303,428	19,923
FY 2004 State Homeland Security Grant	97.067	SOH-DOD FY2004 SHSGP	332,986	209,888
FY 2003 State Homeland Security Grant Program Part I	97.067	DOD 2003 SHSGP I	217,000	189,394
			<u>853,414</u>	<u>419,205</u>
Subtotal Pass-Through Programs			<u>1,475,181</u>	<u>879,870</u>
Total U.S. Department of Homeland Security			<u>3,431,326</u>	<u>1,182,121</u>
Total Federal Grants			<u>\$ 134,453,763</u>	<u>\$ 25,766,624</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, 2006, which collectively comprise the Department's basic financial statements and have issued our report thereon dated December 8, 2006. 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 December 8, 2006.

### 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 Gawa LLP*

Honolulu, Hawaii  
December 8, 2006

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, 2006. 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, 2006.

### 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.

*Ohata Chum Yoon LLP*

Honolulu, Hawaii  
December 8, 2006

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, 2006

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>
11.419	Coastal Zone Management Administration Awards
12.UNK	Kaho'olawe Restoration
15.605	Sport Fish Restoration
15.916	Outdoor Recreation, Acquisition, Development and Planning
20.205	Highway Planning and Construction

DEPARTMENT OF LAND AND NATURAL RESOURCES  
STATE OF HAWAII  
Schedule Of Findings And Questioned Costs  
For The Year Ended June 30, 2006

Section I - Summary Of Auditors' Results (continued)

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

\$ 772,999

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, 2006

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, 2006

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, 2006

Finding

Status

None