FINANCIAL AUDIT OF THE DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT AND TOURISM STATE OF HAWAII

Fiscal Year Ended June 30, 2008

Submitted by
The Auditor
State of Hawaii

N&K CPAs, Inc.
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March 31, 2009

Ms. Marion Higa
Office of theAuditor
State of Hawaii

Dear Ms. Higa:

This is our report on the financial audit of the Department of Business, Economic Development and Tourism, State of Hawaii (DBEDT), as of and for the fiscal year ended June 30, 2008. Our audit was performed in accordance with the terms of our contract with the Office of the Auditor, State of Hawaii and with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and the *Compliance Supplement for Single Audits of State and Local Governments.*

OBJECTIVES OF THE AUDIT

The primary purpose of our audit was to form an opinion on the fairness of the presentation of the DBEDT's basic financial statements as of and for the fiscal year ended June 30, 2008, and to comply with the requirements of OMB Circular A-133, which establishes audit requirements for state and local governments that receive federal financial assistance. More specifically, the objectives of the audit were as follows:

1. To provide a basis for an opinion on the fairness of the DBEDT's basic financial statements and the schedule of expenditures of federal awards as of and for the fiscal year ended June 30, 2008, in accordance with accounting principles generally accepted in the United States of America.

2. To consider the DBEDT's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements.

3. To perform tests of the DBEDT's compliance with laws, regulations, contracts, and grants, including applicable provisions of the Hawaii Public Procurement Code (Chapter 103D, Hawaii Revised Statutes), that could have a direct and material effect on the determination of financial statement amounts.

4. To consider the DBEDT'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 internal control over compliance.

5. To provide an opinion on the DBEDT's compliance with applicable laws, regulations, contracts, and grants that could have a direct and material effect on each major program.

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 DBEDT for the fiscal year ended June 30, 2008.

ORGANIZATION OF THE REPORT

This report is presented in five parts as follows:

- Part I - The basic financial statements and related notes of the DBEDT as of and for the fiscal year ended June 30, 2008, and our opinion on the basic financial statements and supplementary information.
- Part II - Our report on internal control over financial reporting and on compliance and other matters.
- Part III - Our report on compliance with requirements applicable to each major program and on internal control over compliance.
- Part IV - The schedule of findings and questioned costs.
- Part V - The summary schedule of prior audit findings.

We wish to express our sincere appreciation for the excellent cooperation and assistance extended by the officers and staff of the DBEDT.

Sincerely,

N&K CPAs, Inc.

Ron T. Shiigi
Principal

DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT AND TOURISM
STATE OF HAWAII

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DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT AND TOURISM
STATE OF HAWAII

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PART I

FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

To the Auditor
Office of the Auditor
State of Hawaii

We have audited the accompanying financial statements of the governmental activities and each major fund of the Department of Business, Economic Development and Tourism of the State of Hawaii (DBEDT), as of and for the fiscal year ended June 30, 2008, which collectively comprise the DBEDT's basic financial statements as listed in the foregoing table of contents. These financial statements are the responsibility of the DBEDT's management. Our responsibility is to express an opinion on these basic 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 basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note A, the financial statements of the DBEDT are intended to present the financial position and the changes in financial position, where applicable, of only that portion of the governmental activities, and each major fund of the State of Hawaii that is attributable to the transactions of the DBEDT. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2008, and the changes in its financial position, where applicable, for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the DBEDT, as of June 30, 2008, and the respective changes in financial position, where applicable, thereof and the respective budgetary comparison for the general and economic development special revenue funds for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued our report dated February 17, 2009, on our consideration of the DBEDT's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the 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 DBEDT's 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 not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

N&K CPAs, Inc.

Honolulu, Hawaii
February 17, 2009

As management of the Department of Business, Economic Development and Tourism, State of Hawaii (DBEDT), we offer readers of the DBEDT's basic financial statements this narrative overview and analysis of the financial activities of the DBEDT for the fiscal year ended June 30, 2008.

FINANCIAL HIGHLIGHTS

- The assets of the DBEDT exceeded its liabilities at June 30, 2008 by $91.2 million (net assets).
- Of the total net assets, the amount of $37.9 million or 41.6% was unrestricted and may be used by the DBEDT for its operations and activities in achieving its goal of sustainable growth of Hawaii's economy.
- The DBEDT's liabilities reported in the statement of net assets decreased during the current fiscal year to $15.4 million, a decrease of $0.1 million or 0.9% from the prior fiscal year.
- At June 30, 2008, the DBEDT reported combined ending fund balances of $40.2 million. Of this amount, $19.1 million or 47.6% of the total fund balances is available for spending at the DBEDT's discretion (unreserved fund balance) and the remaining $21.1 million represents amounts reserved for specific purposes.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the DBEDT's basic financial statements. The DBEDT's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the DBEDT's finances, in a manner similar to a private sector business.

The statement of net assets presents information on all of the DBEDT's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the DBEDT is improving or deteriorating.

The statement of activities presents information showing how the DBEDT's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., unused vacation leave).

Fund Financial Statements

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. The DBEDT uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of the DBEDT can be divided into two categories, Governmental Funds and Fiduciary Funds.

Governmental Funds

Governmental Funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, Governmental Funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the DBEDT's near-term financing requirements.

Because the focus of Governmental Funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for Governmental Funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the DBEDT's near-term financing decisions. Both the Governmental Funds balance sheet and the Governmental Funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between Governmental Funds and governmental activities in the government-wide financial statements.

Information is presented separately in the Governmental Funds balance sheet and in the Governmental Funds statement of revenues, expenditures, and changes in fund balances for the general fund, economic development special revenue fund, and capital projects fund.

The DBEDT adopts an annual appropriated budget for its general fund and economic development special revenue fund. A budgetary comparison statement has been provided for these funds to demonstrate compliance with this budget. The budgetary comparison statement for the general fund and the economic development special revenue fund is located in the basic financial statements.

Fiduciary Funds

Fiduciary Funds are used to account for resources held for by the DBEDT in an agency capacity.

Notes to the Basic Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is a financial analysis on the governmental activities of the DBEDT. Net assets are a useful indicator of a government's financial position. For the DBEDT, total assets exceeded liabilities by $91.2 million, and increased $6.9 million or 8.2% over the course of this fiscal year's operations.

The following table was derived from the government-wide statement of net assets:

Net Assets
June 30, 2008 and 2007
(Amounts in thousands)

	2008	2007 Restated
Assets		
Current and other assets	$ 53,330	$ 50,116
Capital assets, net	53,268	49,729
Total assets	$ 106,598	$ 99,845
Liabilities		
Long-term liabilities, net of current portion	$ 1,653	$ 1,714
Other liabilities	13,770	13,850
Total liabilities	15,423	15,564
Net assets		
Invested in capital assets, net	53,268	49,729
Unrestricted	37,907	34,552
Total net assets	91,175	84,281
Total liabilities and net assets	$ 106,598	$ 99,845

Analysis of Net Assets

By far the largest portion of the DBEDT's net assets ($53.3 million or 58.4%) reflects its investment in capital assets (e.g., land, buildings, and equipment), less any related debt used to acquire those assets that is still outstanding. The DBEDT uses these capital assets to provide governmental services to the public and businesses; consequently, these assets are not available for future spending.

The remaining balance of unrestricted net assets of $37.9 million or 41.6% of the total net assets may be used to meet the DBEDT's ongoing obligations for its operations relating to business and economic development.

Current and other assets increased by $3.2 million or 6.4% from the prior fiscal year, due primarily to increase in program revenues and funds appropriated for new capital improvement projects.

During the current fiscal year, capital assets increased by $3.5 million or 7.1%, due primarily to the recording of current year depreciation expense, which was offset by current year additions for capital improvement projects of the Natural Energy Laboratory of Hawaii Authority and the Foreign-Trade Zone Division.

Total liabilities decreased by $0.1 million or 0.9% from the prior fiscal year, due primarily to a $0.04 million decrease in the amount of vouchers payable and $0.06 million decrease in the noncurrent accrued vacation balance.

Changes in Net Assets

The following financial information was derived from the government-wide statement of activities and reflects how the DBEDT's net assets changed during the fiscal year.

Changes in Net Assets
Fiscal Years Ended June 30, 2008 and 2007
(Amounts in thousands)

	2008	2007 Restated
Revenues		
Program revenues:		
Charges for services	$ 7,344	$ 6,198
Operating grants and contributions	13,831	11,550
General revenues:		
State-allotted appropriations	19,510	25,602
Other	1,834	3,722
Total revenues	42,519	47,072
Expenses		
Natural Energy Laboratory of Hawaii Authority	11,975	8,458
High Technology Development	5,823	5,418
Office of Planning	4,101	4,640
General Support for Economic Development	3,835	3,757
Strategic Industries	4,252	3,637
Strategic Marketing and Support	2,562	3,084
Economic Planning and Research for Economic Development	3,194	2,635
Hawaii Strategic Development Corporation	944	2,888
Foreign-Trade Zone	2,093	1,946
Creative Industries	(226)	1,368
Land Use Commission	623	640
Aloha Tower Development Corporation	1,021	876
Capital Outlays	447	594
Total expenses	40,644	39,941
Changes in net assets before transfers	1,875	7,131
Transfers	5,019	170
Changes in net assets	6,894	7,301
Beginning net assets, as restated	84,281	76,980
Ending net assets	$ 91,175	$ 84,281

Analysis of Changes in Net Assets

The DBEDT's net assets increased by $6.9 million or 8.2% during the fiscal year ended June 30, 2008 primarily due to the current fiscal year's total revenues exceeding the current fiscal year's total expenses.

Total revenues for the DBEDT were $42.5 million for FY 2008. Revenues generated by program charges for services were $7.3 million or 17.3% of the total, the State-allotted appropriations made up $19.5 million or 45.9% of the total, and federal grants and other sources provided the balance in total revenues. Revenues generated by program charges for services increased by $1.1 million or 18.5% from the prior fiscal year primarily due to an increase in revenues for the Natural Energy Laboratory of Hawaii Authority and the High Technology Development Corporation.

Total expenses for the DBEDT were $40.6 million for FY 2008. The expenses were for the following programs administered by the DBEDT: Natural Energy Laboratory of Hawaii Authority (NELHA), Office of Planning, High Technology Development Corporation, Hawaii Strategic Development Corporation, Strategic Industries, Strategic Marketing and Support, Creative Industries, Economic Planning and Research for Economic Development, General Support for Economic Development, Aloha Tower Development Corporation, Land Use Commission, and the Foreign-Trade Zone. The largest expenses were for NELHA of $12.0 million or 29.5% of the total expended, which increased $3.5 million or 41.6% from the prior fiscal year.

FINANCIAL ANALYSIS OF DBEDT'S INDIVIDUAL FUNDS

As noted earlier, the DBEDT uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the DBEDT's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the DBEDT's financing requirements. In particular, the unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the DBEDT's governmental funds reported combined ending fund balances of $40.2 million, an increase of $3.3 million or 8.9% from the prior fiscal year. Approximately $19.1 million or 47.6% of this total amount constitutes the unreserved fund balance, which is available for spending at the DBEDT's discretion in the coming fiscal year.

The general fund is the DBEDT's primary operating fund. At the end of the current fiscal year, the fund balance of the DBEDT's general fund was $10.8 million, which reflects an increase of 125% over the prior fiscal year.

The economic development special revenue fund accounts for all programs related to the development and promotion of industry and international commerce, energy development and management, economic research and analysis, and the utilization of resources. At the end of the current fiscal year, the fund balance of the economic development special revenue fund was $28.1 million, of which $17.9 million was unreserved and available for the DBEDT's expenses.

The capital projects fund accounts for financial resources used for the acquisition or construction of major capital facilities. The fund balance of the capital projects fund at the end of the current fiscal year was $1.2 million.

Fiduciary Funds

The DBEDT maintains an agency fund for the funds held in the bank account for security deposits for the Foreign-Trade Zone Division, NELHA, and the High Technology Development Corporation.

GENERAL FUND BUDGETARY HIGHLIGHTS

The difference between the general fund original budget of $19.8 million and the final budget of $20.1 million was $0.3 million. Actual expenditures were $19.3 million for FY 2008 resulting in a variance between the final budget and actual expenditures on a budgetary basis of $0.8 million.

CAPITAL ASSETS

The DBEDT's investment in capital assets as of June 30, 2008 amounted to $53.3 million (net of accumulated depreciation of $34.9 million). This investment in capital assets includes land, buildings and improvements, machinery, and equipment. Major capital improvement project expenses for the fiscal year ended June 30, 2008 included security improvements at the Foreign-Trade Zone Division.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Hawaii is currently going through a period of economic slowdown due to national and global economic conditions. In January, 2009, the Council on Revenues, lowered its estimates of the State's General Fund tax growth rate to -3.0% in fiscal 2009, 1.0% in fiscal 2010, and 3.5% in fiscal 2011. Due to these extraordinary financial circumstances, the Governor has restricted discretionary spending in FY 2009 and has required reductions to the General Fund budget request for the next Fiscal Biennium 2009-2011. Updated revenue projections will impact the Governor's budget policy and accordingly, DBEDT's future budget.

REQUESTS FOR INFORMATION

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director, Department of Business, Economic Development and Tourism, P.O. Box 2359, Honolulu, Hawaii 96804. General information about the DBEDT can be found at the State's website, http://www.hawaii.gov/dbedt.

Department of Business, Economic Development and Tourism
State of Hawaii
STATEMENT OF NET ASSETS
June 30, 2008

ASSETS		
Cash		
Cash in State Treasury	$	42,694,588
Cash in bank		1,449,464
Petty cash		29,300
Total cash		44,173,352
Receivables		
Accounts, net		169,447
Loans, net		1,221,171
Due from grantor		1,140,231
Total receivables, net		2,530,849
Investment in venture capital limited partnerships, at cost		6,625,988
Capital assets		
Non-depreciable		3,651,978
Depreciable, net		49,615,491
		53,267,469
Total assets	$	106,597,658
LIABILITIES		
Liabilities		
Vouchers payable	$	1,572,892
Accrued payroll		597,793
Due to other state agencies		7,683,566
Due to State General Fund		29,300
Deferred revenues		3,281,505
Accrued compensated absences		
Due within one year		604,885
Due in more than one year		1,652,991
Total liabilities		15,422,932
NET ASSETS		
Invested in capital assets		53,267,469
Unrestricted		37,907,257
Total net assets		91,174,726
Total liabilities and net assets	$	106,597,658

See accompanying notes to the basic financial statements.

Department of Business, Economic Development and Tourism
State of Hawaii
STATEMENT OF ACTIVITIES
Fiscal Year Ended June 30, 2008

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expenses) Revenue and Changes in Net Assets
Governmental activities:				
Natural Energy Laboratory of Hawaii Authority	$ 11,975,291	$ 3,326,477	$ 6,352,273	$ (2,296,541)
High Technology Development Corporation	5,822,799	915,819	2,935,688	(1,971,292)
Office of Planning	4,100,675	--	2,146,424	(1,954,251)
General Support for Economic Development	3,835,267	--	--	(3,835,267)
Strategic Industries	4,251,787	111,446	601,678	(3,538,663)
Strategic Marketing and Support	2,562,112	(40,105)	78,923	(2,523,294)
Economic Planning and Research for Economic Development	3,194,375	57,503	1,466,324	(1,670,548)
Foreign-Trade Zone	2,093,380	1,531,338	249,986	(312,056)
Hawaii Strategic Development Corporation	944,063	429,777	--	(514,286)
Creative Industries	(226,394)	--	--	226,394
Land Use Commission	623,422	--	--	(623,422)
Aloha Tower Development Corporation	1,021,024	1,011,789	--	(9,235)
Capital Outlays	446,612	--	--	(446,612)
Total governmental activities	$ 40,644,413	$ 7,344,044	$ 13,831,296	(19,469,073)
General revenues:				
State-allotted appropriations, net of reversions and lapses				19,509,860
Nonimposed employee fringe benefits				2,760,275
Interest				699,526
Lapsed appropriations related to previous fiscal years				(1,625,838)
Total general revenues				21,343,823
Transfer in of capital assets from other State agency				5,193,769
Transfers				(175,056)
Change in net assets				6,893,463
Net assets at July 1, 2007 as previously reported				391,179,144
Prior period adjustment				(4,230,692)
Adjustment for Hawaii Tourism Authority				(302,667,189)
Net assets at July 1, 2007, as restated				84,281,263
Net assets at June 30, 2008				$ 91,174,726

See accompanying notes to the basic financial statements.

Department of Business, Economic Development and Tourism
State of Hawaii
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2008

	General	Economic Development Special Revenue	Capital Projects	Total
ASSETS				
Cash in State Treasury	$ 10,215,326	$ 31,252,158	$ 1,227,104	$ 42,694,588
Cash in bank	--	1,449,464	--	1,449,464
Petty cash	8,500	20,800	--	29,300
Receivables:				
Accounts, net	--	169,447	--	169,447
Loans, net	1,188,026	33,145	--	1,221,171
Due from grantor	--	1,140,231	--	1,140,231
Investment in venture capital limited partnerships, at cost	--	6,625,988	--	6,625,988
Total assets	$ 11,411,852	$ 40,691,233	$ 1,227,104	$ 53,330,189
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Vouchers payable	$ 301,031	$ 1,271,861	$ --	$ 1,572,892
Accrued payroll	306,496	291,297	--	597,793
Due to other state agencies	--	7,683,566	--	7,683,566
Due to State General Fund	8,500	20,800	--	29,300
Deferred revenues	--	3,281,505	--	3,281,505
Total liabilities	616,027	12,549,029	--	13,165,056
FUND BALANCES				
Reserved for encumbrances	9,607,799	10,106,373	624,904	20,339,076
Reserved for capital projects	--	--	602,200	602,200
Reserved for other purposes	--	104,507	--	104,507
Unreserved	1,188,026	17,931,324	--	19,119,350
Total fund balances	10,795,825	28,142,204	1,227,104	40,165,133
Total liabilities and fund balances	$ 11,411,852	$ 40,691,233	$ 1,227,104	$ 53,330,189

See accompanying notes to the basic financial statements.

Department of Business, Economic Development and Tourism
State of Hawaii
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2008

Total fund balances - governmental funds		$ 40,165,133
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		
Governmental capital assets	$ 88,192,647	
Less accumulated depreciation	(34,925,178)	53,267,469
Accrued compensated absences liability is not due in the current period and, therefore, is not reported in the governmental funds.		(2,257,876)
Net assets of governmental activities		$ 91,174,726

See accompanying notes to the basic financial statements.

Department of Business, Economic Development and Tourism
State of Hawaii
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Fiscal Year Ended June 30, 2008

	General	Economic Development Special Revenue	Capital Projects	Total
REVENUES				
Charges for current services	$ --	$ 7,344,044	$ --	$ 7,344,044
Intergovernmental	--	13,831,296	--	13,831,296
State-allotted appropriations, net of reversions and lapses	18,684,143	--	(800,121)	17,884,022
Nonimposed employee fringe benefits	2,760,275	--	--	2,760,275
Interest	104,728	594,798	--	699,526
	21,549,146	21,770,138	(800,121)	42,519,163
EXPENDITURES				
Natural Energy Laboratory of Hawaii Authority	365,000	9,424,924	--	9,789,924
Office of Planning	2,060,097	2,146,493	--	4,206,590
High Technology Development Corporation	1,159,943	3,887,021	--	5,046,964
Strategic Industries	2,375,313	1,908,579	--	4,283,892
General Support for Economic Development	3,445,222	--	--	3,445,222
Economic Planning and Research for Economic Development	1,476,096	1,447,481	--	2,923,577
Strategic Marketing and Support	2,290,061	344,520	--	2,634,581
Hawaii Strategic Development Corporation	--	960,102	--	960,102
Foreign-Trade Zone	--	2,233,847	--	2,233,847
Creative Industries	1,429,936	--	--	1,429,936
Land Use Commission	651,273	--	--	651,273
Aloha Tower Development Corporation	--	1,021,024	--	1,021,024
Capital outlays	--	--	446,612	446,612
	15,252,941	23,373,991	446,612	39,073,544
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	6,296,205	(1,603,853)	(1,246,733)	3,445,619
OTHER FINANCING SOURCES (USES)				
Transfers in	--	118,944	--	118,944
Transfers out	(294,000)	--	--	(294,000)
	(294,000)	118,944	--	(175,056)
NET CHANGE IN FUND BALANCES	6,002,205	(1,484,909)	(1,246,733)	3,270,563
FUND BALANCES AT JULY 1, 2007 as previously reported	4,793,620	65,556,546	2,609,044	72,959,210
Adjustment for Hawaii Tourism Authority	--	(35,929,433)	(135,207)	(36,064,640)
FUND BALANCES AT JULY 1, 2007 as restated	4,793,620	29,627,113	2,473,837	36,894,570
FUND BALANCES AT JUNE 30, 2008	$ 10,795,825	$ 28,142,204	$ 1,227,104	$ 40,165,133

See accompanying notes to the basic financial statements.

Department of Business, Economic Development and Tourism
State of Hawaii
RECONCILIATION OF THE CHANGE IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Fiscal Year Ended June 30, 2008

Net change in fund balances - total governmental funds	$	3,270,563
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures, however, in the statement of activities, the cost of those assets are depreciated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period		3,538,258
Change in long-term compensated absences reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		84,642
Change in net assets of governmental activities	$	6,893,463

See accompanying notes to the basic financial statements.

Department of Business, Economic Development and Tourism
State of Hawaii
STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
GENERAL AND ECONOMIC DEVELOPMENT SPECIAL REVENUE FUNDS
Fiscal Year Ended June 30, 2008

	General Fund				Economic Development Special Revenue Fund			
	Original budget	Final budget	Actual on budgetary basis	Variance favorable (unfavorable)	Original budget	Final budget	Actual on budgetary basis	Variance favorable (unfavorable)
REVENUES								
State-allotted appropriations, net of reversions and lapses	$ 19,810,621	$ 20,106,789	$ 19,275,311	$ (831,478)	$ --	$ --	$ --	$ --
Other	--	--	--	--	46,711,812	62,039,934	22,041,709	(39,998,225)
	19,810,621	20,106,789	19,275,311	(831,478)	46,711,812	62,039,934	22,041,709	(39,998,225)
EXPENDITURES								
Natural Energy Laboratory of Hawaii Authority	365,000	365,000	365,000	--	12,270,784	17,830,776	9,120,277	8,710,499
High Technology Development Corporation	1,118,401	1,150,260	999,995	150,265	8,876,482	11,649,746	3,507,216	8,142,530
Office of Planning	1,745,173	1,649,117	1,646,311	2,806	3,983,083	7,511,564	2,136,573	5,374,991
Aloha Tower Development Corporation	--	--	--	--	1,530,554	2,121,269	1,295,076	826,193
Strategic Industries	3,653,447	3,674,026	3,670,249	3,777	5,363,395	6,380,738	1,974,190	4,406,548
General Support for Economic Development	2,605,748	2,661,117	2,303,455	357,662	--	--	--	--
Economic Planning and Research for Economic Development	1,295,127	1,310,478	1,265,898	44,580	1,590,030	2,630,821	1,550,841	1,079,980
Foreign-Trade Zone				--	2,010,341	2,747,762	1,979,560	768,202
Strategic Marketing and Support	2,178,042	2,141,551	2,019,320	122,231	2,071,915	2,099,799	148,391	1,951,408
Land Use Commission	491,616	485,477	466,871	18,606	--	--	--	--
Hawaii Strategic Development Corporation	5,000,000	5,000,000	5,000,000	--	9,015,228	9,067,459	323,692	8,743,767
Creative Industries	1,358,067	1,669,763	1,538,212	131,551	--	--	--	--
	19,810,621	20,106,789	19,275,311	831,478	46,711,812	62,039,934	22,035,816	40,004,118
EXCESS OF REVENUES OVER EXPENDITURES	$ --	$ --	$ --	$ --	$ --	$ --	$ 5,893	$ 5,893

See accompanying notes to the basic financial statements.

Department of Business, Economic Development and Tourism
State of Hawaii
STATEMENT OF ASSETS AND LIABILITIES
AGENCY FUNDS
June 30, 2008

ASSETS	
Cash and other assets held in trust	$ 228,599
Total assets	$ 228,599
LIABILITIES	
Deposits payable	$ 228,599
Total liabilities	$ 228,599

See accompanying notes to the basic financial statements.

NOTE A - FINANCIAL REPORTING ENTITY

The Department of Business, Economic Development and Tourism (DBEDT) is a department of the State of Hawaii (the State). The DBEDT's basic financial statements present the financial position and changes in financial position of only that portion of the governmental activities and major fund information of the State that are attributable to the transactions of the DBEDT. The State Comptroller maintains the central accounts for all State funds and publishes comprehensive financial statements for the State annually, which include the DBEDT's financial activities.

The objective of the DBEDT is to make broad policy determinations with respect to economic development within the State and to stimulate research (through research and demonstration projects) in industrial and economic development that offer the most immediate promise to expand the State's economy. In addition, the DBEDT endeavors to gain an understanding of those functions and activities of other governmental agencies and of private agencies that are related to the field of economic development. The DBEDT also encourages initiative and creative thinking in harmony with the objectives of the DBEDT.

The State has defined its reporting entity in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity.* This statement establishes standards for defining and reporting on the financial reporting entity. The basic criterion for including a potential component unit within the reporting entity is financial accountability. Other criteria include legal standing and fiscal dependency.

The DBEDT's basic financial statements consist of the financial activities of the DBEDT and certain other agencies of the State that are administratively attached to the DBEDT. The following agencies are blended component units of the State and are included in the DBEDT's basic financial statements:

Aloha Tower Development Corporation
Hawaii Strategic Development Corporation
High Technology Development Corporation
Natural Energy Laboratory of Hawaii Authority

The Office of State Planning and the Land Use Commission are administratively attached to the DBEDT and are also included in the basic financial statements. The DBEDT's basic financial statements do not include the financial statements of the Hawaii Community Development Authority (HCDA), the Hawaii Housing Finance & Development Corporation (HHFDC), and the Hawaii Tourism Authority (HTA). Complete financial statements for the HCDA, HHFDC, and HTA may be obtained at their respective administrative offices.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the DBEDT have been prepared in conformity with generally accepted accounting principles in the United States of America (GAAP), as applicable to governmental units. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

(1) ***Basis of Presentation*** - The government-wide financial statements, which are the statement of net assets and the statement of activities, report information of all of the nonfiduciary activities of the DBEDT. The effect of interfund activity has been removed from these government-wide 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. State allotments and other items properly not included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than program revenues.

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

The financial activities of the DBEDT are recorded in individual funds, each of which is deemed to be a separate accounting entity. The DBEDT uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate the legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

Separate financial statements are provided for governmental funds and fiduciary funds. However, the fiduciary funds are not included in the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

The financial activities of the DBEDT that are reported in the accompanying fund financial statements have been classified into the following major governmental funds. In addition, a description of the DBEDT's fiduciary fund is as follows.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Fund Types

The DBEDT reports the following major governmental funds:

General Fund

This fund is the DBEDT's primary operating fund. It accounts for all financial activities of the DBEDT, 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.

Economic Development Special Revenue Fund

This fund accounts for all programs related to the development and promotion of industry and international commerce, energy development and management, economic research and analysis, and the utilization of resources.

Capital Projects Fund

This fund accounts for financial resources to be used for the acquisition or construction of major capital facilities.

Fiduciary Fund Type

Agency Fund

This fund accounts for assets held by the DBEDT in an agency capacity.

(2) ***Measurement Focus and Basis of Accounting*** - The government-wide statement of net assets and statement of activities are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these activities are included on the statement of net assets.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

The modified accrual basis of accounting is used by all governmental fund types and trust funds. Under the modified accrual basis of accounting, revenues such as interest are recognized when susceptible to accrual (i.e., when they become both measurable and available to finance operations of the fiscal year or liquidate liabilities existing at year-end).

Measurable means that the amount of the transaction can be determined. Available means that the amount is collected in the current fiscal year or soon enough after year-end to liquidate liabilities existing at the end of the fiscal year. The DBEDT considers receivables collected within 60 days after year-end to be available and recognizes them as revenues of the current fiscal year. Expenditures are recorded when the related fund liability is incurred.

The DBEDT reports deferred revenues on its statement of net assets and balance sheet. Deferred revenues arise when both the "measurable" and "available" criteria for recognition are not met in the current period. Deferred revenues also arise when the DBEDT receives resources before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the DBEDT has a legal claim to the resources, the liability for the deferred revenue is removed from the statement of net assets and balance sheet and revenue is recognized.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental funds. Encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will generally be honored during the subsequent fiscal year.

(3) ***Use of Estimates*** - The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues, expenditures, and other financing sources and uses during the reporting period. Actual results could differ from those estimates.

(4) ***Investments*** - Investments in venture capital limited partnerships are carried at cost, which amounted to $6,625,988 at June 30, 2008. The fair value of these investments approximated $3,534,059 at June 30, 2008. Fair value of the DBEDT's limited partnership interests is based on the fair value of the underlying securities owned by the limited partnerships obtained from international and national security exchanges or is based on estimated values. The DBEDT has outstanding commitments to fund these venture capital funds of $1,820,068 at June 30, 2008.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

(5) ***Capital Assets*** - Capital assets include land and land improvements, infrastructure assets, buildings and improvements, equipment, and all other tangible and intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at their estimated fair market value at the date of donation.

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements which significantly increase values, change capacities, or extend useful lives are capitalized. Upon sale or retirement of capital assets, the cost and the related accumulated depreciation, as applicable, are removed from the respective accounts, and any resulting gain or loss is recognized in the statement of activities. Capital assets are depreciated using the straight-line method over the useful lives below.

The State has adopted the following capitalization policy:

Asset Type	Minimum Capitalization Amount	Estimated Useful Life
Land	All	Not applicable
Land improvements	$ 100,000	15 years
Buildings and improvements	$ 100,000	30 years
Furniture and equipment	$ 5,000	7 years
Motor vehicles	$ 5,000	5 years

(6) ***Compensated Absences*** - The DBEDT permits employees to accumulate earned but unused vacation and sick leave benefits. There is no liability for unpaid accumulated sick leave since sick leave is not convertible to pay upon termination of employment. All vacation pay is accrued when incurred. Employees are credited with vacation at the rate of 168 hours per calendar year. Accumulation of such vacation credits is limited to 720 hours at calendar year-end and is convertible to pay upon termination of employment. Such accumulated vacation has been accrued and reflected in the statement of net assets.

(7) ***Appropriations*** - Appropriations represent the authorizations granted by the State Legislature that permit 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.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

(8) ***Program Revenues*** - The DBEDT charges various program fees that include office space and facility rental fees, ground rent fees, storage service fees, maintenance fees, and facility management fees.

Federal grant and assistance awards made on the basis of entitlement periods are recorded as revenue when available and entitlement occurs. All other federal reimbursement-type grants are recorded as receivables and revenues when the related expenditures are incurred.

(9) ***Deferred Revenue*** - Deferred revenue at the fund and government-wide level arise when the DBEDT receives resources before it has a legal claim to them. In subsequent periods, when the revenue recognition criteria is met, or when the DBEDT has a legal claim to the resources, the liability for deferred revenue is removed from the statement of net assets and balance sheet, and revenue is recognized. Deferred revenue at June 30, 2008, consists primarily of federal grant funds for which all eligibility requirements have not yet been met.

(10) ***Nonexchange Transactions*** - The DBEDT records grant revenue only when all eligibility requirements have been met and amounts are available.

(11) ***Intrafund and Interfund Transactions*** - Transfers of financial resources within the same fund are eliminated. Transfers from funds receiving revenues to funds through which the resources are to be expended are recorded as transfers.

(12) ***Risk Management*** - The DBEDT is exposed to various risks for losses related to torts; theft of, damage to, or destruction of assets; errors or omissions; natural disasters; and injuries to employees. A liability for a claim for a risk of loss is established if information indicates that it is probable that a liability has been incurred at the date of the basic financial statements and the amount of the loss is reasonably estimable.

(13) ***Deferred Compensation Plan*** - The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all state employees, permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All plan assets are held in a trust fund to protect them from claims of general creditors. The State has no responsibility for loss due to the investment or failure of investment of funds and assets in the plan, but does have the duty of due care that would be required of an ordinary prudent investor. Accordingly, the assets and liabilities of the State's deferred compensation plan are not reported in the accompanying basic financial statements.

NOTE C - BUDGETING AND BUDGETARY CONTROL

The budget of the DBEDT is a detailed operating plan identifying estimated costs and results in relation to estimated revenues. The budget includes (1) the programs, services, and activities to be provided during the fiscal year, (2) the estimated revenues available to finance the operating plan, and (3) the estimated spending requirements of the operating plan. The budget represents a process through which policy decisions are made, implemented, and controlled.

Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated periodically during the fiscal year. Amounts reflected as budgeted revenues in the statement of revenues and expenditures - budget and actual (budgetary basis) - general and economic development special revenue funds are those estimates as compiled and reviewed by the DBEDT.

Budgeted expenditures are derived primarily from the General Appropriations Act of 2007 (Act 213, Session Laws of Hawaii (SLH) 2007), and from other authorizations contained in the State Constitution, HRS, and other specific appropriations acts in various SLH.

All expenditures of these appropriated funds are made pursuant to the appropriations in the fiscal 2007 - 2009 biennial budget. The general and economic development special revenue funds have legally appropriated annual budgets. Capital projects fund appropriated budgets are for projects that may extend over several fiscal years.

The final legally adopted budget in the accompanying statement of revenues and expenditures - budget and actual (budgetary basis) - general and economic development special revenue funds represents the original appropriations, transfers, and other legally authorized legislative and executive changes.

The legal level of budgetary control is maintained at the appropriation line item level by department, program, and source of funds as established in the appropriations act. The Governor is authorized to transfer appropriations between programs within the same department and source of funds; however, transfers of appropriations between departments generally require legislative authorization. Records and reports reflecting the detail level of control are maintained by and are available at the State Department of Accounting and General Services. During the fiscal year ended June 30, 2008, there were no expenditures in excess of appropriations at the legal level of budgetary control.

To the extent not expended or encumbered, general and economic development special revenue funds appropriations generally lapse at the end of the fiscal year for which the appropriations are made. The State Legislature specifies the lapse dates and any other contingencies which may terminate the authorizations for other appropriations.

Budgets adopted by the State Legislature for the general and economic development special revenue funds are presented in the accompanying statement of revenues and expenditures - budget and actual (budgetary basis) - general and economic development special revenue funds. The DBEDT's annual budget is prepared on the modified accrual basis of accounting with

NOTE C - BUDGETING AND BUDGETARY CONTROL (Continued)

several differences from the preparation of the statement of revenues, expenditures, and changes in fund balances, principally related to (1) encumbrance of purchase orders and contract obligations, (2) accrued revenues and expenditures, and (3) unbudgeted programs (federal award programs). The first two differences represent departures from GAAP.

A reconciliation of the budgetary to GAAP basis operating results for the fiscal year ended June 30, 2008 follows:

	General	Economic Development Special Revenue
Excess of revenues over expenditures and other uses - actual on a budgetary basis	$ --	$ 5,893
Reserved for encumbrances at fiscal year-end	9,607,799	10,106,373*
Expenditures for liquidation of prior fiscal year encumbrances	(3,578,312)	(10,726,227)*
Net accrued revenues and expenditures	(342,201)	12,873*
Net changes in unreserved liabilities	314,919	136,221*
Unbudgeted revenues and other financing sources net of expenditures and other financing uses	--	(1,020,042)
Net change in fund balance - GAAP basis	$ 6,002,205	$ (1,484,909)

* Amounts reflect the balances related to budgeted programs only.

NOTE D - CASH AND INVESTMENTS

Cash in State Treasury

The State Director of Finance is responsible for the safekeeping of all monies paid into the State Treasury. The State Director of Finance pools and invests 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.

NOTE D - CASH AND INVESTMENTS (Continued)

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the State's investment policy generally limits maturities on investments to not more than five years from the date of investment.

Credit Risk

The State's investment policy limits investments in state and U.S. Treasury securities, time certificates of deposit, U.S. government or agency obligations, repurchase agreements, commercial paper, bankers' acceptances, and money market funds and student loan resource securities maintaining a Triple-A rating.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the State will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The State's investments are held at broker/dealer firms which are protected by the Securities Investor Protection Corporation (SIPC) up to a maximum amount. In addition, excess-SIPC coverage is provided by the firms' insurance policies. In addition, the State requires the institutions to set aside in safekeeping, certain types of securities to collateralize repurchase agreements. The State monitors the market value of these securities and obtains additional collateral when appropriate.

Concentration of Credit Risk

The State's policy provides guidelines for portfolio diversification by placing limits on the amount the State may invest in any one issuer, types of investment instruments, and position limits per issue of an investment instrument.

Cash in Bank

The carrying value of the DBEDT's cash in bank balance of $1,474,504 ($1,449,464 for the governmental funds and $25,040 for the fiduciary fund) equals the bank balance and was uncollateralized at June 30, 2008. Such balance primarily represents the DBEDT's bank accounts maintained for out-of-state operations, the Hawaii Strategic Development Corporation program, and security deposits held for the Foreign-Trade Zone Division, the High Technology Development Corporation, and the Natural Energy Laboratory of Hawaii Authority.

NOTE E - ACCOUNTS AND LOAN RECEIVABLE

At June 30, 2008, accounts and loans receivable consisted of the following:

	Accounts receivable	Loans receivable
Foreign-Trade Zone Division	$ 57,094	$ --
Natural Energy Laboratory of Hawaii Authority	200,678	--
High Technology Development Corporation	264,179	--
Financial Assistance Branch:		
Hawaii Capital Loan Program	--	3,473,649
Hawaii Community-Based Development Loan Program	--	--
Hawaii Innovation Development Loan Program	--	156,947
Hawaii Disaster Commercial Loan Program	--	33,145
	521,951	3,663,741
Less allowance for doubtful accounts	352,504	2,442,570
	$ 169,447	$ 1,221,171

NOTE F - DUE TO OTHER STATE AGENCIES

The Aloha Tower Development Corporation (the ATDC), a blended component unit of the DBEDT, is a State agency established under HRS Chapter 206J, primarily to redevelop the Aloha Tower complex in Honolulu. The complex encompasses Piers 5 to 23 of Honolulu Harbor. In September 1993, the State Department of Transportation - Harbors Division (Harbors) entered into a lease with the ATDC (ATDC lease) which grants the leasehold interest in portions of the Aloha Tower complex to the ATDC. The ATDC is required annually to reimburse Harbors for any losses in revenues during the term of the lease caused by any action of the ATDC or the developer and to provide replacement facilities for maritime activities at no cost to Harbors.

In September 1993, the ATDC subleased lands surrounded by Piers 8 and 9 and a portion of land surrounded by Pier 10 to a developer and entered into a capital improvements, maintenance, operations, and securities agreement (Operations Agreement) with the developer and Harbors. Harbors continues to operate the harbor facilities at Piers 8, 9, and 10. The lease between the ATDC and the developer requires the developer to construct, at the developer's cost, various facilities as designated in the developer's proposal and to reimburse Harbors for all losses in revenues and increased expenses which may be incurred by Harbors. The ATDC, Harbors, and the developer agreed that in lieu of reimbursing Harbors for losses in revenues during the construction period, the developer would perform certain work to repair the structure of Piers 8 through 11, the cost of which would otherwise be incurred by Harbors. The developer offsets the maximum allowable cost of repair of $1,100,000 against its obligation to Harbors for losses in revenues.

As of June 30, 2006, the first phase of the Aloha Tower complex development was completed.

NOTE F - DUE TO OTHER STATE AGENCIES (Continued)

Pursuant to this Operations Agreement, the developer is current on amounts owed to the ATDC as of June 30, 2008. Pursuant to the ATDC lease, the ATDC owed Harbors $7,683,566 as of June 30, 2008. This amount is reflected in the economic development special revenue fund in the DBEDT's basic financial statements.

NOTE G - CAPITAL ASSETS

Changes in capital assets during the fiscal year ended June 30, 2008 were as follows:

	Balance July 1, 2007	Prior Period Adjustment	Balance, 7/1/2007, restated	Additions	Deductions	Balance, June 30, 2008
Capital assets not being depreciated						
Land	$ 2,950,000	$ --	$ 2,950,000	$ --	$ --	$ 2,950,000
Construction in progress	25,608,923	(25,212,597)	396,326	321,121	(15,469)	701,978
Total capital assets not being depreciated	28,558,923	(25,212,597)	3,346,326	321,121	(15,469)	3,651,978
Other capital assets						
Land improvements	311,128	12,274,248	12,585,376	2,097,431	--	14,682,807
Buildings and improvements	49,035,640	4,105,686	53,141,326	6,050,769	(170,309)	59,021,786
Equipment	2,607,957	8,895,028	11,502,985	195,215	(862,124)	10,836,076
Total other capital assets	51,954,725	25,274,962	77,229,687	8,343,415	(1,032,433)	84,540,669
Less accumulated depreciation for:						
Land improvements	(300,758)	(2,502,871)	(2,803,629)	(359,942)	--	(3,163,571)
Buildings and improvements	(23,898,175)	(150,113)	(24,048,288)	(2,304,221)	70,962	(26,281,547)
Furniture, fixtures, and equipment	(2,354,811)	(3,864,148)	(6,218,959)	(123,225)	862,124	(5,480,060)
Total accumulated depreciation	(26,553,744)	(6,517,132)	(33,070,876)	(2,787,388)	933,086	(34,925,178)
Total capital assets being depreciated, net	25,400,981	18,757,830	44,158,811	5,556,027	(99,347)	49,615,491
	$ 53,959,904	$ (6,454,767)	$ 47,505,137	$ 5,877,148	$ (114,816)	$ 53,267,469

During the fiscal year ended June 30, 2008, depreciation expense was charged to functions of the DBEDT as follows:

	Amount
Natural Energy Laboratory of Hawaii Authority	$ 2,223,444
Creative Industries	1,298,483
High Technology and Strategic Development	799,114
General Support for Economic Development	423,903
Foreign-Trade Zone	252,353
Office of Planning	6,498
Economic Planning and Research for Economic Development	4,876
Land Use Commission	1,093
Strategic Marketing and Support	950
Strategic Industries	749
Total depreciation expense	$ 5,011,463

NOTE H - ACCRUED COMPENSATION ABSENCES

Changes in accrued compensation absences during the fiscal year ended June 30, 2008 were as follows:

	Amount
Balance, July 1, 2007	$ 2,342,517
Additions	979,601
Reductions	(1,064,242)
Balance, June 30, 2008	2,257,876
Less current portion	(604,885)
	$ 1,652,991

NOTE I - CHANGES IN ASSETS AND LIABILITIES OF THE AGENCY FUNDS

The agency funds are purely custodial (assets equal liabilities) and thus do not involve the measurement of results of operations. The changes in assets and liabilities of the agency funds for the fiscal year ended June 30, 2008, were as follows:

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
ASSETS				
Cash and other assets held in trust	$ 299,303	$ 25,040	$ 95,744	$ 228,599
LIABILITIES				
Deposits payable	$ 299,303	$ 25,040	$ 95,744	$ 228,599

NOTE J - RETIREMENT BENEFITS

Employees' Retirement System

All eligible employees of the DBEDT are required by Chapter 88, Hawaii Revised Statutes (HRS), 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 issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the ERS at City Financial Tower, 201 Merchant Street, Suite 1400, Honolulu, Hawaii 96813.

NOTE J - RETIREMENT BENEFITS (Continued)

Prior to June 30, 1984, the plan consisted of only a contributory plan. In 1984, legislation was enacted to add a new contributory plan 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 plan. The noncontributory plan 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 plan or to elect the new noncontributory plan and receive a refund of employee contributions. All benefits vest after five and ten years of credited service under the contributory and noncontributory plans, respectively.

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

On July 1, 2006, a new hybrid contributory plan became effective pursuant to Act 179 SLH 2004. Members in the hybrid plan are eligible for retirement at age 62 with 5 years of credited service or age 55 and 30 years of credited service. Members receive a benefit multiplier of 2% for each year of credited service in the hybrid plan. All members of the noncontributory plan and certain members of the contributory plan are eligible to join the hybrid plan. Most new employees hired from July 1, 2006 are required to join the hybrid plan.

Members of the ERS belong to either a contributory or noncontributory option. Only employees of the DBEDT hired on or before June 30, 1984 are eligible to participate in the contributory option. Members are required by state statute to contribute 7.8% of their salary to the contributory option and the DBEDT is required to contribute to both options at an actuarially determined rate.

Most covered employees of the contributory option are required to contribute 7.8% of their salary. The funding method used to calculate the total employer contribution requirement is the Entry Age Normal Actuarial Cost Method. Effective July 1, 2005, employer contribution rates are a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liability.

Measurement of assets and actuarial valuations are made for the entire ERS and are not separately computed for individual participating employers such as the DBEDT. For the fiscal years ended June 30, 2008, 2007, and 2006, the DBEDT made contributions approximating $1,790,000, $1,707,000, and $1,337,000, respectively, which are equal to their required contributions. The contribution rate was 13.75% for the fiscal years ended June 30, 2008, 2007, and 2006.

NOTE J - RETIREMENT BENEFITS (Continued)

Post-Retirement Health Care and Life Insurance Benefits

In addition to providing pension benefits, the State of Hawaii Employer-Union Health Benefits Trust Fund (EUTF), an agent multiple-employer plan provides certain health care (medical, prescription, vision and dental) and life insurance benefits for retired State employees. Act 88 established the EUTF during the 2001 legislative session and is codified in HRS 87A. Contributions are based on negotiated collective bargaining agreements and are limited by State statute to the actual cost of benefit coverage. The DBEDT's share of the expense for post-retirement health care and life insurance benefits for the fiscal year ended June 30, 2008, was approximately $1,109,000.

For employees hired before July 1, 1996, the State pays 100% of the monthly health care premium for employees retiring with 10 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 retiring with 25 years or more of service, the State pays the entire health care premium. For employees retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the monthly Medicare or non-Medicare premium. 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 those retiring with fewer than 10 years of service, the State makes no contributions.

For employees hired after June 30, 2001 and retiring with over 25 years of service, the State pays 100% of the monthly premium based on the self plan. For those 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 based on the self plan. 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 based on the self plan. For those retiring with fewer than 10 years of service, the State makes no contributions.

The State also reimburses 100% of Medicare premium costs for retirees and qualified dependents, who are at least 65 years of age and have at least 10 years of service.

The State implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postretirement Benefits Other Than Pensions* prospectively for the fiscal year ended June 30, 2008. The State is required to contribute the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

NOTE J - RETIREMENT BENEFITS (Continued)

The State has only computed the allocation of the other postemployment benefit (OPEB) costs to component units and proprietary funds that are reported separately in the State's Comprehensive Annual Financial Report (CAFR). Therefore, the OPEB costs for the DBEDT was not available and are not included in the financial statements. The State's CAFR includes the note disclosures and required supplementary information on the State's OPEB plans.

The EUTF issues a stand-alone financial report that includes financial statements and required supplementary information, which may be obtained at the following address: State of Hawaii Employer-Union Health Benefits Trust Fund, 201 Merchant Street, Suite 1520, Honolulu, Hawaii 96813.

NOTE K - NONIMPOSED EMPLOYEE FRINGE BENEFITS

Payroll fringe benefit costs of employees of the DBEDT funded by state appropriations (General Fund) are assumed by the State and are not charged to the DBEDT's operating funds. These costs, totaling $2,760,275 for the fiscal year ended June 30, 2008, have been reported as revenues and expenditures within the DBEDT's general fund.

Payroll fringe benefit costs related to federally-funded salaries are not assumed by the State and are recorded as expenditures in the DBEDT's economic development special revenue fund.

NOTE L - COMMITMENTS AND CONTINGENCIES

Leases

The DBEDT leases office facilities and equipment under various operating leases expiring through 2013. Future minimum lease commitments of noncancelable operating leases as of June 30, 2008, were as follows:

Fiscal Year Ending June 30,	Amount
2009	$ 221,000
2010	212,400
2011	75,200
2012	12,100
2013	5,000
	$ 525,700

The DBEDT's rental expenditures related to the above leases for the fiscal year ended June 30, 2008, were approximately $181,900.

NOTE L - COMMITMENTS AND CONTINGENCIES (Continued)

Accumulated Sick Leave

Employees hired on or before July 1, 2001 earn sick leave credits at the rate of one and three-quarters working days for each month of service. Employees hired after July 1, 2001 earn vacation at the rate of one and one-quarter or one and three-quarters working days for each month of service, depending upon the employees' years of service and job classification. Sick leave credits may accumulate without limit, but may be taken only in the event of illness and are not convertible to pay upon termination of employment. However, an employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the ERS. At June 30, 2008, accumulated sick leave approximated $7,910,000 for the DBEDT.

Litigation

From time to time, the DBEDT is named as a defendant in various legal proceedings. Although the DBEDT and its counsel are unable to express opinions as to the outcome of the litigation, it has been the State's historical practice that certain types of judgments and settlements against an agency of the State are paid from the State General Fund through an appropriation bill which is submitted annually by the Department of the Attorney General to the State Legislature. Currently, the State revised its procedures to allow payment from a department's special fund rather than the general fund. Consequently, a claim against a special fund of the DBEDT may adversely affect the DBEDT's budget and financial statements.

NOTE M - RISK MANAGEMENT

The DBEDT is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; and workers' compensation. The State records a liability for risk financing and insurance related losses if it is determined that a loss has been incurred and the amount can be reasonably estimated. The State retains various risks and insures certain excess layers with commercial insurance companies. The excess layers insured with commercial insurance companies are consistent with the prior fiscal year. Settled claims have not exceeded the coverage provided by commercial insurance companies in any of the past three fiscal years. A summary of the State's underwriting risks is as follows:

Property Insurance

The State has an insurance policy with a variety of insurers in a variety of layers for property coverage. The deductible for coverage is 3% of loss subject to a $1 million per occurrence minimum. This policy includes windstorm, earthquake, flood damage, tsunami, and volcanic action coverage. The limit of loss per occurrence is $175 million, except for terrorism which is $50 million per occurrence.

NOTE M - RISK MANAGEMENT (Continued)

The State also has a crime insurance policy for various types of coverages with a limit of loss of $10 million per occurrence with a $500,000 deductible per occurrence, except for claims expense coverage which has a $100,000 per occurrence and a $1,000 deductible. Losses not covered by insurance are paid from legislative appropriations of the State's General Fund.

General Liability (including torts)

Claims under $10,000 are handled by the risk management office of the Department of Accounting and General Services. All other claims are handled by the Department of the Attorney General. The State has personal injury and property damage liability, including automobile and public errors and omissions, insurance policy in force with a $4 million self-insured retention per occurrence. The annual aggregate per occurrence is $10 million.

Losses under the deductible amount or over the aggregate limit are paid from legislative appropriations of the State's General Fund.

Self-Insured Risks

The State generally self-insures its automobile no-fault and workers' compensation losses. Automobile losses are administered by third-party administrators. The State administers its workers' compensation losses. The State records a liability for risk financing and insurance related losses, including incurred but not reported, if it is determined that a loss has been incurred and the amount can be reasonably estimated.

At June 30, 2008, the State recorded an estimated loss for workers' compensation, automobile and general liability claims as long-term debt as the losses will not be liquidated with currently expendable available financial resources. The estimated losses will be paid from legislative appropriations of the State's General Fund.

NOTE N - HAWAII TOURISM AUTHORITY

In previous fiscal years, the Hawaii Tourism Authority (HTA) was a blended component unit of the DBEDT, and was included in the DBEDT's basic financial statements. In the current fiscal year, the HTA is a discretely presented component unit of the State, and therefore, the financial activities of the HTA as of the fiscal year ended June 30, 2008 were not reported on the DBEDT's financial statements.

The governmental funds financial statements of the DBEDT as of June 30, 2007 reported a fund balance amount of $36,064,640, related to the HTA. Accordingly, total fund balances as of July 1, 2007 have been restated to reflect only DBEDT's fund balance. As a result of the restatement, total fund balances and net assets as of July 1, 2007 decreased by $36,064,640.

NOTE N - HAWAII TOURISM AUTHORITY (Continued)

The financial statements of the DBEDT as of June 30, 2007 reported $266,954,436 of capital assets and a $351,887 accrual of compensated absence related to the HTA. As a result of the restatement, net assets as of July 1, 2007 decreased by $266,602,549.

The net effect of these adjustments was to decrease net assets at July 1, 2007 by $302,667,189.

NOTE O - PRIOR PERIOD ADJUSTMENT

The financial statements of the DBEDT as of June 30, 2007 did not recognize $4,230,692 of accumulated depreciation. The accumulated depreciation related to capital assets were reported as construction in progress instead of depreciable assets. Accordingly, net assets as of July 1, 2007 have been restated to reflect the proper capital asset and accumulated depreciation balances that should have been recorded. As a result of the restatement, net assets as of July 1, 2007 decreased by $4,230,692.

SUPPLEMENTARY INFORMATION

Department of Business, Economic Development and Tourism
State of Hawaii
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2008

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant Number	Federal Expenditures
U.S. DEPARTMENT OF COMMERCE			
Market Development Cooperator Program	11.112	03-02584	$ 34,444
Economic Development Support for Planning Organizations	11.302	07-88-05784	20,000
Economic Adjustment Assistance	11.307	07-79-05930	30,000
Coastal Zone Management Administration Awards	11.419	NA03NOS4190082	25,625
	11.419	NA04NOS4190038	249,613
	11.419	NA05NOS4191060	284,823
	11.419	NA06NOS4190159	842,601
	11.419	NA07NOS4190159	616,437
			2,019,099
Habitat Conservation	11.463	NA04NMF4630366	329,452
Manufacturing Extension Partnership	11.611	70NANB3H2000	403,643
Total U.S. Department of Commerce			2,836,638
U.S. DEPARTMENT OF DEFENSE			
Research and Technology Development	12.910	MDA972-02-2-0002	4,273,737
	12.910	HR0011-07-2-0005	1,472,389
Total U.S. Department of Defense			5,746,126
U.S. ENVIRONMENTAL PROTECTION AGENCY			
Brownfields Pilots Cooperative Agreements	66.811	BL97943301-0	614
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	BF96915601-0	233,799
Total U.S. Environmental Protection Agency			234,413
U.S. DEPARTMENT OF ENERGY			
State Energy Program	81.041	DE-FG26-05R021608	299,371
	81.041	DE-FG51-05R021608	55,391
			354,762
Regional Biomass Energy Programs	81.079	DE-FC51-02R021318	1,228

Department of Business, Economic Development and Tourism
State of Hawaii
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
Fiscal Year Ended June 30, 2008

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant Number	Federal Expenditures
U.S. DEPARTMENT OF ENERGY (continued)			
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training, and Technical Analysis/Assistance	81.117	DE-FC36-03R028608	$ 8,537
	81.117	DE-FG26-07NT43298	21,265
	81.117	DE-FG36-06R038602	15,000
	81.117	DE-FG36-96GO46013	85,602
	81.117	DE-FG36-07GO47004	257
	81.117	DE-FG36-04R021598	9,964
			140,625
State Energy Program Special Projects	81.119	DE-FG26-03R021496	1,250
	81.119	DE-FG51-04R021585	43,975
	81.119	DE-FG51-05R021657	43,034
	81.119	DE-FG51-05R021668	47,442
			135,701
Total U.S. Department of Energy			632,316
U.S. DEPARTMENT OF TRANSPORTATION			
Research and Technology Development	N/A	DTRS56-99-T-0017	91,380
Total U.S. Department of Transportation			91,380
U.S. DEPARTMENT OF HOMELAND SECURITY			
Port Security Grant Program	97.056	HSTS04-04-G-GPS639	249,986
Total U.S. Department of Homeland Security			249,986
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 9,790,859

Department of Business, Economic Development and Tourism
State of Hawaii
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2008

NOTE A - BASIS OF PRESENTATION

The DBEDT's basic financial statements are prepared in conformity with accounting principles generally accepted in the United States of America, as described in the notes to the basic financial statements. The accompanying schedule of expenditures of federal awards includes the federal grant activities of the DBEDT and is presented on the cash basis of accounting, which is the same basis of acounting used to prepare federal grant reports. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B - SUBRECIPIENTS

Of the federal expenditures presented in this schedule, the DBEDT provided federal awards to subrecipients as follows:

Program Title	Federal CFDA Number	Amount Provided to Subrecipients
Coastal Zone Management Administration Awards	11.419	$ 1,351,432
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training, and Technical Analysis/Assistance	81.117	110,375
Total provided to subrecipients		$ 1,461,807

PART II

AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

N&K CPAs, Inc.
ACCOUNTANTS | CONSULTANTS

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

To the Auditor
Office of the Auditor
State of Hawaii:

We have audited the financial statements of the governmental activities and each major fund of the Department of Business, Economic Development and Tourism, State of Hawaii (DBEDT), as of and for the fiscal year ended June 30, 2008, which collectively comprise the DBEDT's basic financial statements, and have issued our report thereon dated February 17, 2009. 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 DBEDT's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the DBEDT's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the DBEDT's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the DBEDT's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the DBEDT's financial statements that is more than inconsequential will not be prevented or detected by the DBEDT's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the DBEDT's internal control.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the DBEDT'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 that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the DBEDT in a separate letter dated February 17, 2009.

This report is intended solely for the information and use of the Office of the Auditor, the management of DEBDT, 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.

N&K CPAs, Inc.

Honolulu, Hawaii
February 17, 2009

PART III

AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE

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

To the Auditor
Office fo the Auditor
State of Hawaii:

Compliance

We have audited the compliance of the Department of Business, Economic Development and Tourism State of Hawaii (DBEDT) 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 fiscal year ended June 30, 2008. The DBEDT'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 DBEDT's management. Our responsibility is to express an opinion on the DBEDT'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 DBEDT'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 DBEDT's compliance with those requirements.

In our opinion, the DBEDT complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended June 30, 2008.

Internal Control Over Compliance

The management of the DBEDT 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 DBEDT's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the DBEDT's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

This report is intended solely for the information and use of the Office of the Auditor, the management of DBEDT, 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.

N&K CPAs, Inc.

Honolulu, Hawaii
February 17, 2009

PART IV

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Department of Business, Economic Development and Tourism
State of Hawaii
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2008

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	Unqualified			
Internal control over financial reporting:				
Material weakness(es) identified?	___	yes	✓	no
Significant deficiencies identified that are not considered to be material weakness(es)?	___	yes	✓	none reported
Noncompliance material to financial statements noted?	___	yes	✓	no

Federal Awards

Internal control over major programs:				
Material weakness(es) identified?	___	yes	✓	no
Significant deficiencies identified that are not considered to be material weakness(es)?	___	yes	✓	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	✓	no

Identification of major programs:

CFDA Number	Name of Federal Program
Department of Commerce - 11.419	Coastal Zone Management Administration Awards
Department of Commerce - 11.463	Habitat Conservation
Department of Defense - 12.910	Research and Technology Development
Department of Energy - 81.041	State Energy Program

Dollar threshold used to distinguish between Type A and Type B programs:	$ 300,000			
Auditee qualified as low-risk auditee?	✓	yes	___	no

SECTION II - FINANCIAL STATEMENT FINDINGS

None

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

PART V

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Department of Business, Economic Development and Tourism
State of Hawaii
STATUS REPORT
Fiscal Year Ended June 30, 2008

This section contains the current status of the prior year's recommendation. The recommendation is referenced to the pages of the previous audit report for the fiscal year ended June 30, 2007, dated February 28, 2008.

Recommendation	Federal CFDA Number	Status
SECTION III - FEDERAL AWARD FINDINGS		
07-01 Prepare and Maintain Payroll Certifications (pages 55 - 56)		
The DBEDT should prepare and maintain semi-annual payroll certifications in accordance with OMB Circular A-87, for employees who worked solely on a federal program or cost objective. Certifications should be prepared in a timely manner to ensure that they are readily available to support time charged to federal programs.	11.419 11.611	Accomplished. Management of the Coastal Zone Management Administration Awards program and the Manufacturing Extension Partnership program have prepared semi-annual payroll certifications for the fiscal year ended June 30, 2008, in compliance with OMB Circular A-87.