

Schedule of Expenditures (Cash Basis) and Report
of Independent Certified Public Accountants

**Department of Business, Economic Development
and Tourism – Taipei and Beijing Offices,
State of Hawaii**

Years ended June 30, 2010, 2009 and 2008

October 12, 2011

Director
Department of Business, Economic Development and Tourism
State of Hawaii

Enclosed is our audit report on the schedule of expenditures for the Department of Business, Economic Development and Tourism ("DBEDT") Taipei and Beijing offices, State of Hawaii for the years ended June 30, 2010, 2009, and 2008.

Objectives of the Audit

The primary purpose of our audit was to form an opinion on the fairness of the presentation of DBEDT Taipei and Beijing offices, State of Hawaii schedule of expenditures (cash basis) for the years ended June 30, 2010, 2009, and 2008. More specifically, the objectives of the audit were as follows:

1. To provide a basis for an opinion on the fairness of the presentation of the schedule of expenditures (cash basis) for DBEDT Taipei and Beijing offices, State of Hawaii.
2. To determine whether DBEDT Taipei and Beijing offices, State of Hawaii internal control is adequate in assuring that there is effective control over and proper accounting of expenditures.
3. To review the offices organizational structure, systems, procedures, and practices over its financial administration functions.

Scope of the Audit

Our audit was performed in accordance with auditing standards generally accepted in the United States of America as prescribed by the American Institute of Certified Public Accountants and *Government Auditing Standards*, issued by the Comptroller General of the United States. The scope of our audit included an examination of the transactions and accounting records of DBEDT Taipei and Beijing offices, State of Hawaii for the years ended June 30, 2010, 2009, and 2008.

Organization of the Report

This report is presented in two parts as follows:

- Part I – The schedule of expenditures (cash basis) and the related notes of the Department of Business, Economic Development and Tourism and the Taipei and the Beijing offices for the fiscal years ended June 30, 2010, 2009, and 2008, and our opinion of the schedule of expenditures (cash basis).
- Part II – Our report on internal control over financial reporting and on compliance and other matters. *Government Auditing Standards* requires that we report, as applicable to the objectives of the audit, and based on the work performed, all instances of fraud and illegal acts unless inconsequential; and violations of provisions of contracts or grant agreements and abuse that could have a material effect on the financial statements in this report.

We wish to express our sincere appreciation for the excellent cooperation and assistance extended by the director and staff of the Department of Business, Economic Development and Tourism and the Taipei and the Beijing offices.

Very truly yours,



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PART I
FINANCIAL SECTION

Report of Independent Certified Public Accountants

Director
Department of Business, Economic Development and Tourism
State of Hawaii

We have audited the accompanying schedules of expenditures (cash basis) of the Department of Business, Economic Development and Tourism's (DBEDT) Taipei and Beijing offices, State of Hawaii for the years ended June 30, 2010, 2009, and 2008. These schedules are the responsibility of DBEDT's management. Our responsibility is to express an opinion on these schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants 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 schedules of expenditures (cash basis) are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the DBEDT's Taipei and Beijing offices internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedules of expenditures (cash basis). An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note B, these schedules were prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the schedules of expenditures (cash basis) referred to above present fairly, in all material respects, the expenditures of DBEDT Taipei and Beijing offices for the years ended June 30, 2010, 2009, and 2008, on the basis of accounting described in Note B.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2011 on our consideration of DBEDT's Taipei and Beijing offices internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

PKF Pacific Hawaii LLP

Honolulu, Hawaii
October 12, 2011

Department of Business, Economic Development and Tourism
 Taipei Office
 State of Hawaii

SCHEDULES OF EXPENDITURES (CASH BASIS)

Year ended June 30,

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Expenditures			
Director's contract	\$ 43,007	\$ 43,791	\$ 46,077
Assistant's salary	21,288	21,739	22,127
Office rent, parking, and management fee	12,338	20,687	15,860
Phone, fax, and long-distance	2,106	3,167	2,251
Internet and mobile phone	1,546	1,579	1,389
Insurance	1,220	1,268	1,885
Miscellaneous	1,003	4,076	1,131
Utilities	668	796	965
Office supplies and equipment	651	2,859	1,516
Copy machine rental	566	745	564
Taxi fair	463	553	595
Printing	248	230	4,649
Travel	225	2,085	4,697
Marketing, protocol, promotion, and seminar	-	303	6,581
Website	-	1,569	10,899
	<u> </u>	<u> </u>	<u> </u>
Total expenditures	<u>\$ 85,329</u>	<u>\$ 105,447</u>	<u>\$ 121,186</u>

The accompanying notes are an integral part of these schedules.

Department of Business, Economic Development and Tourism
Beijing Office
State of Hawaii

SCHEDULES OF EXPENDITURES (CASH BASIS)

Year ended June 30,

	2010			2009			2008		
	SMSD	MDCP	Total	SMSD	MDCP	Total	SMSD	MDCP	Total
	Fund	Fund		Fund	Fund		Fund	Fund	
Expenditures									
Director's contract	\$ 21,063	\$ 30,780	\$ 51,843	\$ 31,200	\$ 21,894	\$ 53,094	\$ 54,699	\$ -	\$ 54,699
Office rent, management fee, and storage	13,536	18,554	32,090	17,085	12,162	29,247	27,413	-	27,413
Assistant's salary	4,529	8,572	13,101	7,343	7,089	14,432	8,348	12,853	21,201
Miscellaneous	2,870	1,249	4,119	1,951	1,857	3,808	2,159	3	2,162
Phone, fax, and long-distance	2,184	408	2,592	4,089	2,136	6,225	5,712	-	5,712
Lunch meetings	445	2,103	2,548	2,792	1,792	4,584	4,000	-	4,000
Travel	737	1,407	2,144	682	4,074	4,756	8,147	3,924	12,071
China Plaza Mission Expenses	1,769	-	1,769	-	-	-	-	-	-
COFCO Plaza parking card	925	793	1,718	-	-	-	-	-	-
Mobile phone	1,363	-	1,363	865	-	865	1,730	-	1,730
Office supplies and equipment	1,315	-	1,315	1,086	-	1,086	1,775	-	1,775
Computer	1,159	-	1,159	-	-	-	-	-	-
Internet line fee	352	704	1,056	704	584	1,288	1,317	-	1,317
Office janitorial services	1,056	-	1,056	1,054	-	1,054	990	-	990
Utilities	312	583	895	477	485	962	925	-	925
Lunch coupon	880	-	880	835	-	835	1,186	-	1,186
Taxi fair	354	-	354	141	-	141	174	-	174
Membership fees	293	-	293	734	295	1,029	1,405	-	1,405
Printing	54	-	54	2,002	-	2,002	197	7,244	7,441
Marketing, protocol, promotion, and seminar	-	-	-	-	-	-	3,988	5,431	9,419
Total expenditures	\$ 55,196	\$ 65,153	\$ 120,349	\$ 73,040	\$ 52,368	\$ 125,408	\$ 124,165	\$ 29,455	\$ 153,620

The accompanying notes are an integral part of these schedules.

Department of Business, Economic Development and Tourism
Taipei and Beijing Offices
State of Hawaii

NOTES TO SCHEDULES OF EXPENDITURES

June 30, 2010, 2009 and 2008

NOTE A – BACKGROUND

The Department of Business, Economic Development and Tourism (“DBEDT”) is Hawai‘i’s resource center for economic and statistical data, business development opportunities, energy and conservation information, and foreign trade advantages. The objective of the department is to make broad policy determinations with respect to economic development in the state and to stimulate through research and demonstration projects those industrial and economic development efforts that offer the most immediate promise of expanding Hawai‘i’s economy. Pursuant to Section 26-18, Hawaii Revised Statutes (“HRS”), the department’s responsibilities are:

To undertake statewide business and economic development activities, undertake energy development and management, provide economic research and analysis, plan for the use of Hawai‘i’s ocean resources, and encourage the development and promotion of industry and international commerce through programs established by law.

Section 201-81 of HRS authorizes DBEDT to establish out-of-state offices to conduct various activities related to economic development. Section 201-85 exempts DBEDT from various state laws to the extent necessary to operate these offices. The DBEDT Strategic Marketing & Support Division (SMSD) in Honolulu (Honolulu Office) provides oversight of the overseas offices.

In response to the rapid growth of the Greater China economies (China, including Hong Kong and Taiwan), DBEDT established an office in Taipei in 1994 and in Beijing in 2001. These offices support and implement DBEDT’s programs, and serve Hawaii businesses and educational institutions by providing a wide range of functions. These include:

- Providing stable linkages between Hawaii and the world’s most dynamic region.
- Hosting and organizing trade missions.
- Introducing and marketing new products and services from Hawaii.
- Acting as a conduit for economic and business-related information between Hawaii and Greater China.
- Matching businesses in Hawaii with opportunities in Greater China.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Basis of Presentation

The schedules of expenditures reflect only the results of operations and transactions of the Taipei and Beijing offices, and do not reflect the operations or transactions of DBEDT.

2. Basis of Accounting

The schedules of expenditures have been prepared on the cash basis of accounting which is another comprehensive basis of accounting. Under the cash basis, the expenditures are recognized when cash is paid.

Department of Business, Economic Development and Tourism
Taipei and Beijing Offices
State of Hawaii

NOTES TO SCHEDULES OF EXPENDITURES (continued)

June 30, 2010, 2009 and 2008

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3. Expenditures

Expenditures include each of the Taipei and Beijing offices' operating activities under the supervision of DBEDT. Expenditures incurred by DBEDT for management and monitoring of these offices are not included in the schedules of expenditures (cash basis).

NOTE C – SUBSEQUENT EVENTS

Management has reviewed and considered whether events occurring after year end should be reflected or disclosed in these statements. The date through which this review was conducted was October 12, 2011, the date the financial statements were available to be issued

PART II

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

**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**

Director
Department of Business, Economic Development and Tourism
State of Hawaii

We have audited the schedules of expenditures (cash basis) of the Department of Business, Economic Development and Tourism's (DBEDT) Taipei and Beijing offices, State of Hawaii for the years ended June 30, 2010, 2009 and 2008, and have issued our report thereon dated October 12, 2011. 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 Taipei and Beijing offices internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the schedules, but not for the purpose of expressing an opinion on the effectiveness of Institute's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of DBEDT's Taipei and Beijing offices internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described below that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

During our audit, we noted certain amounts were erroneously reported on the schedules of expenditures (cash basis). These errors were caused primarily due to turnover in DBEDT personnel responsible for compiling the schedule based on financial information provided by the Taipei and Beijing offices' personnel and the need for greater care being exercised when performing the DBEDT's Taipei and Beijing offices procedures.

Director
Department of Business, Economic Development and Tourism
State of Hawaii

Compliance and Other Matters

As part of obtaining reasonable assurance about whether DBEDT's Taipei and Beijing offices' schedules 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 schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

PKF Pacific Hawaii LLP

Honolulu, Hawaii
October 12, 2011