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

Fiscal Year Ended June 30, 2007

NK

NISHIHAMA & KISHIDA, CPAS, INC.
CERTIFIED PUBLIC ACCOUNTANTS

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March 10, 2008

Mr. Theodore Liu, Director
Department of Business, Economic Development and Tourism
State of Hawaii

Dear Mr. Liu:

This is our report on the financial audit of the Department of Business, Economic Development and Tourism, State of Hawaii (DBEDT), for the fiscal year ended June 30, 2007. Our audit was performed in accordance with the terms of our contract with the DBEDT 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 for the fiscal year ended June 30, 2007, 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 opinions on the fair presentation 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, 2007, 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, 2007.

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, 2007, and our opinion on the basic financial statements.
- 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,

Nishihama & Kishida, CPAs, Inc.

Ron T. Shiigi

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

NISHIHAMA & KISHIDA, CPAs, INC.
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INDEPENDENT AUDITORS' REPORT

To the Director
Department of Business, Economic Development and Tourism
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, 2007, 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 did not audit the financial statements of the Hawaii Tourism Authority (the Authority), a blended component unit of the DBEDT, which represents 75% and 70% of the assets and revenues, respectively, of the governmental activities, and which represents 51% and 83% of the assets and revenues, respectively, of the economic development special revenue fund. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinions, insofar as they relate to the amounts included for the Authority, are based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide 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, 2007, 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 and the report of other auditors, 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, 2007, and the respective changes in financial position, where applicable, thereof and the respective budgetary comparison for the general and economic development special revenue fund 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 28, 2008, 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 important for 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.

Nishihama & Kishida, CPAs, Inc.

Honolulu, Hawaii
February 28, 2008

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, 2007.

FINANCIAL HIGHLIGHTS

- The assets of the DBEDT exceeded its liabilities at June 30, 2007 by $391.2 million (net assets).
- Of the total net assets, the amount of $70.3 million or 18% 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 $28.6 million, a decrease of $2.7 million or 8.8% from the prior fiscal year.
- At June 30, 2007, the DBEDT reported combined ending fund balances of $72.9 million. Of this amount, $25.7 million or 35.2% of the total fund balances is available for spending at the DBEDT's discretion (unreserved fund balance) and the remaining $47.2 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., uncollected tax revenue and 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 $391.2 million, and increased $13.7 million or 3.5% 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, 2007 and 2006
(Amounts in thousands)

	2007	2006 Restated
Assets		
Current and other assets	$ 98,847	$ 81,071
Capital assets, net	320,914	327,735
Total assets	$ 419,761	$ 408,806
Liabilities		
Long-term liabilities, net of current portion	$ 1,966	$ 1,935
Other liabilities	26,616	29,394
Total liabilities	28,582	31,329
Net assets		
Invested in capital assets, net	320,914	327,735
Unrestricted	70,265	49,742
Total net assets	391,179	377,477
Total liabilities and net assets	$ 419,761	$ 408,806

Analysis of Net Assets

By far the largest portion of the DBEDT's net assets ($320.9 million or 82%) 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 $70.3 million or 18% 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 $17.8 million or 21.9% 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 decreased by $6.8 million or 2.1%, 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, the Foreign-Trade Zone Division, and the Hawaii Tourism Authority (the Authority).

Total liabilities decreased by $2.7 million or 8.8% from the prior fiscal year, due primarily to a $1.5 million decrease in the amount of deferred revenues.

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, 2007 and 2006
(Amounts in thousands)

	2007	2006 Restated
Revenues		
Program revenues:		
Charges for services	$ 23,723	$ 18,913
Operating grants and contributions	11,550	13,584
General revenues:		
Transient accommodations tax	105,085	102,404
State-allotted appropriations	25,602	11,909
Other	5,811	4,318
Total revenues	171,771	151,128
Expenses		
Hawaii Tourism Authority	117,579	109,857
Natural Energy Laboratory of Hawaii Authority	8,458	11,414
High Technology Development	5,418	5,138
Office of Planning	4,640	4,346
General Support for Economic Development	3,757	3,401
Strategic Industries	3,637	3,256
Strategic Marketing and Support	3,084	2,823
Economic Planning and Research for Economic Development	2,635	2,762
Hawaii Strategic Development Corporation	2,888	2,524
Foreign-Trade Zone	1,946	1,881
Creative Industries	1,368	1,326
Land Use Commission	640	589
Aloha Tower Development Corporation	876	40
Capital Outlays	1,313	--
Total expenses	158,239	149,357
Changes in net assets before transfers	13,532	1,771
Transfers	170	--
Changes in net assets	13,702	1,771
Beginning net assets, as restated	377,477	375,706
Ending net assets	$ 391,179	$ 377,477

Analysis of Changes in Net Assets

The DBEDT's net assets increased by $13.7 million or 3.5% during the fiscal year ended June 30, 2007 primarily due to the current fiscal year's total revenues exceeding the current fiscal year's total expenses.

Total revenues for the DBEDT were $171.8 million for FY 2007. Of this total, the amount of $105.1 million or 61.2% was from the transient accommodations tax revenues received by the Authority, which increased by $2.7 million or 2.6% from the prior fiscal year due to the strength of the State's tourism industry. Revenues generated by program charges for services were $23.7 million or 13.8% of the total, the State-allotted appropriations made up 14.9% of the total, and federal grants and other sources provided the balance in total revenues. Revenues generated by program charges for services increased by $4.8 million or 25.4% from the prior fiscal year primarily due to the operations of the Hawaii Convention Center.

Total expenses for the DBEDT were $158.2 million for FY 2007. The expenses were for the following programs administered by the DBEDT: the Authority, 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 the Hawaii Tourism Authority of $117.6 million or 74.3% of the total expended, which increased $7.7 million or 7% from the prior fiscal year primarily due to increases in tourism marketing expenses.

FINANCIAL ANALYSIS OF THE STATE'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 $72.9 million, an increase of $23.9 million or 48.7% from the prior fiscal year. Approximately $25.7 million or 35.2% 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 $4.8 million, which reflects an increase of 35.4% 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 $65.5 million, of which $24.2 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 $2.6 million.

Fiduciary Funds

The DBEDT maintains an agency fund for the funds held in the bank account for out-of-state operations and 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 $24.1 million and the final budget of $24.6 million was $0.5 million. Actual expenditures were $24.4 million for FY 2007 resulting in a variance between the final budget and actual expenditures on a budgetary basis of $0.2 million.

CAPITAL ASSETS

The DBEDT's investment in capital assets as of June 30, 2007 amounted to $320.9 million (net of accumulated depreciation of $102.1 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, 2007 included the Main Pump Station Renovation and Upgrade at NELHA, Renovations and Improvements at the Hawaii Convention Center, and Security Improvements at the Foreign-Trade Zone Division.

DUE TO STATE DEPARTMENT OF BUDGET AND FINANCE

At the end of the current fiscal year, the outstanding principal and interest amounts required to be reimbursed by the Authority to the State Department of Budget and Finance (Budget and Finance) were $286.2 million and $192.1 million, respectively. This entire amount was comprised of general obligation bonds, which are backed by the full faith and credit of the State and whose proceeds were used to fund the construction of the Hawaii Convention Center.

The Authority's ability to reimburse Budget and Finance is contingent upon continued receipt of future transient accommodations tax allocations from the State. In addition, the ultimate responsibility for debt service payments to the bondholders of the general obligation bonds remains with the State through Budget and Finance. Accordingly, the obligation to reimburse Budget and Finance for debt service as described above has not been recorded in the DBEDT's basic financial statements. However, the Authority's obligation to reimburse Budget and Finance in accordance with the mutually agreed-upon payment plan represents a commitment of the Authority.

For the current fiscal year, the Authority was required to reimburse Budget and Finance $26.2 million for debt service. At the end of the current fiscal year, the unpaid amount due to Budget and Finance was $11.1 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Council on Revenues in August 2007 estimated that the State's General Fund tax growth rate would be 5.7% in fiscal 2008, 3.8% in fiscal 2009, and 4.9% in fiscal 2009. While the current condition of Hawaii's economy is good, the projected growth in tax revenue remains a concern. Based on this concern, the Governor's budget policy mandates that all departments maintain fiscal discipline in managing its resources. Consultant and personal services contracts greater than $50,000 and the filling of positions continue to require the approval of the Governor and other expenditure controls implemented in fiscal 2007 continue to be in force.

Updates to revenue projections issued by the Council on Revenues will impact the Governor's policy on budget formulation and, accordingly, the 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, 2007

ASSETS		
Cash		
Cash in state treasury	$	56,962,454
Cash in bank		4,554,365
Petty cash		35,850
Total cash		61,552,669
Receivables		
Accounts, net		194,795
Transient accommodations tax		8,888,908
Due from Hawaii Convention Center		1,550,000
Loans, net		1,569,586
Due from grantor		624,716
Total receivables, net		12,828,005
Investments		17,800,400
Investment in venture capital limited partnerships, at cost		6,665,937
Capital assets		
Non-depreciable		160,055,431
Depreciable, net		160,858,909
		320,914,340
Total assets	$	419,761,351
LIABILITIES		
Liabilities		
Vouchers payable	$	3,069,805
Accrued payroll		703,772
Due to State Department of Budget and Finance		11,091,450
Due to other state agencies		7,683,566
Due to State General Fund		35,850
Deferred revenues		3,303,358
Accrued vacation		
Due within one year		728,679
Due in more than one year		1,965,727
Total liabilities		28,582,207
NET ASSETS		
Invested in capital assets		320,914,340
Unrestricted		70,264,804
Total net assets		391,179,144
Total liabilities and net assets	$	419,761,351

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, 2007

Functions/Programs	Expenses	Program Revenues: Charges for services	Program Revenues: Operating grants and contributions	Net Expenses and Changes in Net Assets
Governmental activities:				
Hawaii Tourism Authority	$ 117,579,058	$ 17,524,885	$ –	$ (100,054,173)
Natural Energy Laboratory of Hawaii Authority	8,458,414	3,012,448	4,431,655	(1,014,311)
High Technology Development Corporation	5,417,655	613,309	2,482,490	(2,321,856)
Office of Planning	4,640,024	–	2,541,966	(2,098,058)
General Support for Economic Development	3,756,692	–	–	(3,756,692)
Strategic Industries	3,636,488	54,294	632,094	(2,950,100)
Strategic Marketing and Support	3,084,520	11,132	63,133	(3,010,255)
Economic Planning and Research for Economic Development	2,635,422	17,241	1,399,030	(1,219,151)
Foreign-Trade Zone	1,945,806	1,608,210	–	(337,596)
Hawaii Strategic Development Corporation	2,888,363	(147,694)	–	(3,036,057)
Creative Industries	1,368,017	–	–	(1,368,017)
Land Use Commission	639,898	–	–	(639,898)
Aloha Tower Development Corporation	875,682	1,029,214	–	153,532
Capital Outlays	1,313,380	–	–	(1,313,380)
Total governmental activities	$ 158,239,419	$ 23,723,039	$ 11,550,368	(122,966,012)
General revenues:				
Transient accommodations tax				105,085,613
State-allotted appropriations, net of reversions and lapses				25,602,170
Nonimposed employee fringe benefits				2,621,001
Interest				3,376,129
Lapsed appropriations related to previous years				(186,101)
Total general revenues				136,498,812
Transfers				169,598
Change in net assets				13,702,398
Net assets at July 1, 2006 as previously reported				375,468,095
Prior period adjustments				2,008,651
Net assets at July 1, 2006, as restated				377,476,746
Net assets at June 30, 2007				$ 391,179,144

See accompanying notes to the basic financial statements.

Department of Business, Economic Development and Tourism
State of Hawaii
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2007

	General	Economic Development Special Revenue	Capital Projects	Total Governmental Funds
ASSETS				
Cash in state treasury	$ 3,930,523	$ 50,380,713	$ 2,651,218	$ 56,962,454
Cash in bank	--	4,554,365	--	4,554,365
Petty cash	10,250	25,600	--	35,850
Receivables:				
Accounts, net	--	194,795	--	194,795
Loans, net	1,530,227	39,359	--	1,569,586
Due from grantor	--	624,716	--	624,716
Transient accommodations tax receivable	--	8,888,908	--	8,888,908
Due from Hawaii Convention Center	--	1,550,000	--	1,550,000
Investments	--	17,800,400	--	17,800,400
Investment in venture capital limited partnerships, at cost	--	6,665,937	--	6,665,937
Total assets	$ 5,471,000	$ 90,724,793	$ 2,651,218	$ 98,847,011
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Vouchers payable	$ 371,298	$ 2,656,333	$ 42,174	$ 3,069,805
Accrued payroll	295,832	407,940	--	703,772
Due to State Department of Budget and Financ	--	11,091,450	--	11,091,450
Due to other state agencies	--	7,683,566	--	7,683,566
Due to State General Fund	10,250	25,600	--	35,850
Deferred revenues	--	3,303,358	--	3,303,358
Total liabilities	677,380	25,168,247	42,174	25,887,801
FUND BALANCES				
Reserved for encumbrances	3,282,480	41,271,537	704,844	45,258,861
Reserved for capital projects	--	--	1,904,200	1,904,200
Reserved for other purposes	--	99,653	--	99,653
Unreserved	1,511,140	24,185,356	--	25,696,496
Total fund balances	4,793,620	65,556,546	2,609,044	72,959,210
Total liabilities and fund balances	$ 5,471,000	$ 90,724,793	$ 2,651,218	$ 98,847,011

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, 2007

Total fund balances - governmental funds		$ 72,959,210
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	$ 423,062,755	
Less accumulated depreciation	(102,148,415)	320,914,340
Accrued compensated absences liability is not due in the current period and, therefore, is not reported in the governmental funds.		(2,694,406)
Net assets of governmental activities		$ 391,179,144

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, 2007

	General	Economic Development Special Revenue	Capital Projects	Total Governmental Funds
REVENUES				
Transient accommodations tax	$ --	$ 105,085,613	$ --	$ 105,085,613
Charges for current services	--	24,095,691	--	24,095,691
Intergovernmental	--	11,221,900	--	11,221,900
State-allotted appropriations, net of reversions and lapses	23,614,069	--	1,802,000	25,416,069
Nonimposed employee fringe benefits	2,621,001	--	--	2,621,001
Interest	57,244	3,318,886	--	3,376,130
Other	--	(44,185)	--	(44,185)
	26,292,314	143,677,905	1,802,000	171,772,219
EXPENDITURES				
Hawaii Tourism Authority	25,000	111,947,342	--	111,972,342
Natural Energy Laboratory of Hawaii Authority	250,000	8,157,161	--	8,407,161
Office of Planning	2,127,852	2,576,832	--	4,704,684
High Technology Development Corporation	1,162,017	3,515,461	--	4,677,478
Strategic Industries	1,439,387	2,211,426	--	3,650,813
General Support for Economic Development	3,310,383	--	--	3,310,383
Economic Planning and Research for Economic Development	1,287,551	1,377,480	--	2,665,031
Strategic Marketing and Support	2,268,632	335,648	--	2,604,280
Hawaii Strategic Development Corporation	205	2,886,504	--	2,886,709
Foreign-Trade Zone	--	1,687,083	--	1,687,083
Creative Industries	1,354,456	--	--	1,354,456
Land Use Commission	638,589	--	--	638,589
Aloha Tower Development Corporation	--	875,682	--	875,682
Capital outlays	--	--	1,896,109	1,896,109
	13,864,072	135,570,619	1,896,109	151,330,800
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	12,428,242	8,107,286	(94,109)	20,441,419
OTHER FINANCING SOURCES (USES)				
Transfers in	--	11,344,898	--	11,344,898
Transfers out	(11,175,300)	--	--	(11,175,300)
	(11,175,300)	11,344,898	--	169,598
NET CHANGE IN FUND BALANCES	1,252,942	19,452,184	(94,109)	20,611,017
FUND BALANCES AT JULY 1, 2006 as previously reported	3,540,678	42,836,509	2,703,153	49,080,340
Prior period adjustment	--	3,267,853	--	3,267,853
FUND BALANCES AT JULY 1, 2006 as restated	3,540,678	46,104,362	2,703,153	52,348,193
FUND BALANCES AT JUNE 30, 2007	$ 4,793,620	$ 65,556,546	$ 2,609,044	$ 72,959,210

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, 2007

Net change in fund balances - total governmental funds	$	20,611,017
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 depreciation exceeded capital outlays in the current period		(6,820,459)
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.		(88,160)
Change in net assets of governmental activities	$	13,702,398

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, 2007

	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	$ 24,080,626	$ 24,554,124	$ 24,373,322	$ (180,802)	$ --	$ --	$ --	$ --
Transient accommodations tax	--	--	--	--	105,010,000	105,010,000	105,085,613	75,613
Other	--	--	--	--	67,980,879	107,928,304	46,531,929	(61,396,375)
	24,080,626	24,554,124	24,373,322	(180,802)	172,990,879	212,938,304	151,617,542	(61,320,762)
EXPENDITURES								
Hawaii Tourism Authority	1,025,000	1,025,000	1,025,000	--	122,304,887	145,771,848	120,533,236	25,238,612
Natural Energy Laboratory of Hawaii Authority	250,000	250,000	250,000	--	11,948,752	17,637,918	9,844,332	7,793,586
High Technology Development Corporation	1,336,930	1,349,238	1,340,455	8,783	8,835,422	10,519,343	4,397,151	6,122,192
Office of Planning	1,622,561	1,669,030	1,660,945	8,085	3,304,282	8,204,485	2,236,617	5,967,868
Aloha Tower Development Corporation	--	--	--	--	1,506,734	2,092,837	977,222	1,115,615
Strategic Industries	2,428,347	2,426,028	2,337,474	88,554	5,222,019	7,326,242	2,089,441	5,236,801
General Support for Economic Development	2,546,638	2,907,110	2,901,013	6,097	--	--	--	--
Economic Planning and Research for Economic Development	977,480	952,356	952,022	334	1,577,887	2,461,104	1,576,401	884,703
Foreign-Trade Zone	--	--	--	--	1,955,541	2,446,679	1,972,571	474,108
Strategic Marketing and Support	1,995,056	2,017,268	2,010,557	6,711	2,071,915	2,207,031	89,620	2,117,411
Land Use Commission	466,200	486,705	477,179	9,526	--	--	--	--
Hawaii Strategic Development Corporation	10,000,000	10,000,000	10,000,000	--	14,263,440	14,270,817	320,113	13,950,704
Creative Industries	1,432,414	1,471,389	1,425,968	45,421	--	--	--	--
	24,080,626	24,554,124	24,380,613	173,511	172,990,879	212,938,304	144,036,704	68,901,600
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	$ --	$ --	$ (7,291)	$ (7,291)	$ --	$ --	$ 7,580,838	$ 7,580,838

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, 2007

ASSETS		
Cash and other assets held in trust	$	299,303
Total assets	$	299,303
LIABILITIES		
Deposits payable	$	299,303
Total liabilities	$	299,303

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
Hawaii Tourism Authority
High Technology Development Corporation
Land Use Commission
Natural Energy Laboratory of Hawaii Authority
Office of Planning

The DBEDT's basic financial statements do not include the financial statements of the Hawaii Community Development Authority (HCDA) and the Hawaii Housing Finance & Development Corporation (HHFDC). Complete financial statements for the HCDA and HHFDC 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.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

(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.

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.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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,

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 $6,665,937 at June 30, 2007. The fair value of these investments approximated $4,668,633 at June 30, 2007. 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 $2,112,461 at June 30, 2007.

(5) ***Capital assets*** - Capital assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the statement of net assets. Capital assets acquired by purchase are recorded at cost. Donated fixed assets are valued at the estimated fair value on the date received. Maintenance, repairs, minor replacements, renewals, and betterments are charged to operations as incurred. Major replacements, renewals, and betterments are capitalized.

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

Depreciation is recorded on capital assets on the government-wide statement of activities.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

(6) ***Accumulated vacation*** - Employees are credited with vacation at the rate of 96 to 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.

(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) ***Transient accommodations tax*** - In accordance with Sections 201B-11 and 237D-6.5, Hawaii Revised Statutes (HRS), the primary source of funding for the Authority's Tourism and Convention Center Fund operations are derived from 32.6% and 17.3%, respectively, of the total amount of transient accommodations tax (TAT) collected by the State. The transient accommodations tax is assessed at a rate of 7.25% on the gross rental or gross rental proceeds derived from providing transient accommodations.

If the amount of TAT revenues deposited into the Tourism Special Fund exceeds $62,292,000 in any fiscal year, the next $1,000,000 of revenues deposited in excess of $62,292,000 are deposited to the Department of Land and Natural Resources (DLNR).

Act 209, SLH 2006 increased the maximum amount of transient accommodations tax deposited into the Convention Center Fund from $31,000,000 to $33,000,000, effective July 1, 2006. Act 235, SLH 2005 increased the transient accommodations tax allocation to the Tourism Fund to 34.2%, effective July 1, 2007.

(10) ***Nonexchange transactions*** - In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for 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.

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 2005 (Act 178, Session Laws of Hawaii (SLH) 2005), 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 2005 -2007 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 DBEDT. During the fiscal year ended June 30, 2007, 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 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.

NOTE C - Budgeting and Budgetary Control (Continued)

A reconciliation of the budgetary to GAAP basis operating results for the fiscal year ended June 30, 2007 follows:

	General	Economic Development Special Revenue
Excess (deficiency) of revenues over expenditures and other uses - actual on a budgetary basis	$ (7,291)	$ 7,580,838
Reserved for encumbrances at fiscal year-end	3,282,480	41,271,537*
Expenditures for liquidation of prior fiscal year encumbrances	(1,481,124)	(30,751,215)*
Net accrued revenues and expenditures	(702,010)	1,407,814*
Net changes in unreserved liabilities	166,187	(183,636)*
Unbudgeted revenues and other financing sources net of expenditures and other financing uses	(5,300)	126,846
Excess of revenues and other financing sources over expenditures and other financing uses - GAAP basis	$ 1,252,942	$ 19,452,184

* 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 $4,583,119 ($4,554,365 for the governmental funds and $28,754 for the fiduciary fund) equals the bank balance and was uncollateralized at June 30, 2007. Such balance primarily represents the DBEDT's bank accounts maintained for out-of-state operations and security deposits held for the Foreign-Trade Zone Division, the High Technology Development Corporation, and the Natural Energy Laboratory of Hawaii Authority.

The Authority requires that the financial institutions pledge collateral based on the daily available bank balances. All securities pledged as collateral are held by the Authority's fiscal agents in the name of the Authority. At June 30, 2007, the Authority's deposits with the financial institution totaled $17,732,109, and had a corresponding bank balance of $26,137,962. Of the total bank balance, $21,037,962 was exposed to custodial credit risk as the amount was uninsured and uncollateralized as of June 30, 2007.

NOTE D - CASH AND INVESTMENTS (Continued)

Investments

The Authority has short-term investments maturing in less than one year, which consist of U.S. government securities amounting to $17,800,400 at June 30, 2007. The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

NOTE E - ACCOUNTS AND LOAN RECEIVABLE

At June 30, 2007, accounts and loans receivable consisted of the following:

	Accounts receivable	Loans receivable
Foreign-Trade Zone Division	$ 46,877	$ --
Natural Energy Laboratory of Hawaii Authority	214,158	--
High Technology Development Corporation	326,665	--
Financial Assistance Branch:		
Hawaii Capital Loan Program	--	3,807,219
Hawaii Community-Based Development Loan Program	--	1,800
Hawaii Innovation Development Loan Program	--	165,578
Hawaii Disaster Commercial Loan Program	--	37,559
	587,700	4,012,156
Less allowance for doubtful accounts	392,905	2,442,570
	$ 194,795	$ 1,569,586

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

NOTE F - DUE TO OTHER STATE AGENCIES (Continued)

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.

Pursuant to this Operations Agreement, the developer is current on amounts owed to the ATDC as of June 30, 2007. Pursuant to the ATDC lease, the ATDC owes Harbors approximately $7,683,566 as of June 30, 2007. 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, 2007 were as follows:

	Balance July 1, 2006	Prior Period Adjustment	Balance, 7/1/2006, restated	Additions	Deductions	Balance, June 30, 2007
Capital assets not being depreciated						
Land	$ 134,446,508	$ --	$ 134,446,508	$ --	$ --	$ 134,446,508
Construction in progress	25,026,195	--	25,026,195	1,877,646	(1,294,918)	25,608,923
Total capital assets not being depreciated	159,472,703	--	159,472,703	1,877,646	(1,294,918)	160,055,431
Other capital assets						
Land improvements	311,128	--	311,128	--	--	311,128
Buildings and improvements	255,409,072	--	255,409,072	957,778	--	256,366,850
Equipment	5,901,247	--	5,901,247	865,658	(437,559)	6,329,346
Total other capital assets	261,621,447	--	261,621,447	1,823,436	(437,559)	263,007,324
Less accumulated depreciation for:						
Land improvements	(280,016)	--	(280,016)	(20,742)	--	(300,758)
Buildings and improvements	(87,917,580)	(692,924)	(88,610,504)	(8,297,202)	--	(96,907,706)
Furniture, fixtures, and equipment	(3,902,553)	(566,278)	(4,468,831)	(547,823)	76,703	(4,939,951)
Total accumulated depreciation	(92,100,149)	(1,259,202)	(93,359,351)	(8,865,767)	76,703	(102,148,415)
Total capital assets being depreciated, net	169,521,298	(1,259,202)	168,262,096	(7,042,331)	(360,856)	160,858,909
	$ 328,994,001	$ (1,259,202)	$ 327,734,799	$ (5,164,685)	$ (1,655,774)	$ 320,914,340

NOTE G - CAPITAL ASSETS (Continued)

During the fiscal year ended June 30, 2007, depreciation expense was charged to functions of the DBEDT as follows:

	Amount
Hawaii Tourism Authority	$ 7,285,466
High Technology and Strategic Development	715,033
General Support for Economic Development	429,185
Strategic Marketing and Support	96,328
Foreign-Trade Zone	254,449
Natural Energy Laboratory of Hawaii Authority	78,074
Economic Planning and Research for Economic Development	4,948
Office of Planning	1,191
Land Use Commission	1,093
Total depreciation expense	$ 8,865,767

NOTE H - DUE TO STATE DEPARTMENT OF BUDGET AND FINANCE

During the period in October 1992 through April 1998, the State issued a series of general obligation bonds whose proceeds were used to fund the construction of the Center. These bonds are obligations of the State and are secured by the State's full faith and credit. The debt service for the general obligation bonds are to be primarily funded by an allocated portion of the State's transient accommodations tax revenue and revenue generated from the operation of the Center. Through June 30, 2000 and from July 1, 2000 to June 30, 2002, these funds were collected and accounted for by the Convention Center Authority and State Department of Budget and Finance (Budget and Finance), respectively.

Effective July 1, 2002, the Convention Center Fund was established by Act 253, Session Laws of Hawaii 2002 (Act 253). In accordance with Act 253, the Convention Center Fund was placed within the Authority and was created to receive all revenues generated from the Center's operations and an allocated portion of the revenues received from the State's transient accommodations tax. Act 253 further states that all funds collected by the Convention Center Fund are to be used to pay all expenses arising from the use and operation of the Center and to pay any and all debt service relating to the Center. However, responsibility for debt service payments to the bondholders on the general obligation bonds referred to above remains with the State through Budget and Finance.

The creation of the Convention Center Fund provided the Authority the ability to reimburse Budget and Finance for debt service payments in accordance with a predetermined payment plan, which had been assigned to the Authority by the Convention Center Authority. The terms of the payment plan requires the Authority to reimburse Budget and Finance for principal and interest payments at an imputed interest rate of 6% through

NOTE H - DUE TO STATE DEPARTMENT OF BUDGET AND FINANCE (Continued)

January 1, 2025. The Authority's ability to meet its obligations in accordance with the payment plan is dependent upon the funds received by the Convention Center Fund. At June 30, 2007, the outstanding principal and aggregate interest amounts required to be reimbursed by the Authority was $286,165,289 and $192,063,303. The scheduled payments to maturity for each of the next five years and thereafter in five-year increments are as follows:

Year	Principal	Interest	Total
2008	$ 9,265,000	$ 17,169,917	$ 26,434,917
2009	9,815,000	16,614,017	26,429,017
2010	10,405,000	16,025,117	26,430,117
2011	11,030,000	15,400,817	26,430,817
2012	11,690,000	14,739,017	26,429,017
2013 - 2017	69,845,000	62,294,487	132,139,487
2018 - 2022	93,470,000	38,671,289	132,141,289
2023 - 2027	70,645,289	8,642,152	79,287,441
	$ 286,165,289	$ 189,556,813	$ 475,722,102

For the fiscal year ended June 30, 2007, the Authority was required to reimburse Budget and Finance $26,172,117 for principal and interest. For the fiscal year ended June 30, 2007, the Authority recorded $17,432,118 of interest expense on debt obligation to Budget and Finance in the statement of activities, as principal payments reduce long-term liabilities on the statement of net assets. At June 30, 2007, there was no unpaid matured principal due to Budget and Finance recorded as due to State Department of Budget and Finance in the accompanying governmental fund balance sheets. At June 30, 2007, the statement of net assets reflected the total long-term liabilities of the Authority as follows:

	Amount
Matured principal	$ --
Interest	11,091,450
Unmatured current principal	9,265,000
Current portion	20,356,450
Unmatured noncurrent principal	276,900,289
Total	$ 297,256,739

Total due to State Department of Budget and Finance activity during the fiscal year was as follows:

	Amount
July 1, 2006	$ 306,447,875
Additions	17,432,118
Reductions	(26,623,254)
June 30, 2007	$ 297,256,739

NOTE H - DUE TO STATE DEPARTMENT OF BUDGET AND FINANCE (Continued)

As noted above, effective July 1, 2002, Act 253 established the Convention Center Fund which provided the Authority the ability to reimburse Budget and Finance for debt service payments with funds from the Center's operations and an allocated portion of the State's transient accommodations tax. During the period from July 1, 2000 to June 30, 2002, these funds were collected and accounted for by Budget and Finance since the statutes did not allow for the Authority to do so.

At the time the Authority commenced accounting for its liability and reimbursements to Budget and Finance on July 1, 2002, the Authority had assumed that the debt service requirements to Budget and Finance for the period from July 1, 2000 to June 30, 2002 had been credited for the funds received by Budget and Finance. Subsequent to June 30, 2005, the Authority was informed that it is still required to meet its debt service obligations for the period from July 1, 2000 to June 30, 2002. Budget and Finance has asserted that the funds received during that period had been credited to the State General Fund and not Budget and Finance. The Authority strongly disagrees and is in discussion with Budget and Finance.

If the Authority does not prevail, its liability to Budget and Finance will increase by $52,865,434 consisting of principal and interest of $12,690,000 and $40,175,434, respectively.

NOTE I - ACCRUED VACATION

Changes in accrued vacation payable during the fiscal year ended June 30, 2007 were as follows:

	Amount
Balance, July 1, 2006	$ 2,606,246
Additions	1,139,515
Deletions	(1,051,355)
Balance, June 30, 2007	2,694,406
Less current portion	(728,679)
	$ 1,965,727

NOTE J - 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, 2007, were as follows:

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
ASSETS				
Cash and other assets held in trust	$ 288,306	$ 28,754	$ 17,757	$ 299,303
LIABILITIES				
Deposits payable	$ 288,306	$ 28,754	$ 17,757	$ 299,303

NOTE K - 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.

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.

NOTE K - RETIREMENT BENEFITS (Continued)

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. The benefit payment options are similar to the current contributory 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 statue 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.

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, 2007, 2006, and 2005, the DBEDT made contributions approximating \$1,707,000, \$1,337,000, and \$1,367,000, respectively, which are equal to their required contributions. The contribution rates for the fiscal years ended June 30, 2007, 2006, and 2005, were 13.75%, 13.75% and 9.14%.

Funding Policy

Most covered employees of the contributory option are required to contribute 7.8% of their salary. Police officers, firefighters, investigators of the departments of the County Prosecuting Attorney and the Attorney General, narcotics enforcement investigators, and public safety investigators are required to contribute 12.2% of their salary. The funding method used to calculate the total employer contribution requirement is the Entry 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.

Post-Retirement Healthcare and Life Insurance Benefits

In addition to providing pension benefits, the State, pursuant to HRS Chapter 87, provides certain health care and life insurance benefits to all qualified employees. Contributions are financed on a pay-as-you-go basis. For the fiscal year ended June 30, 2007, DBEDT's contribution for post-retirement health care and life insurance benefits was approximately \$1,058,000.

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

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

NOTE K - RETIREMENT BENEFITS (Continued)

years but fewer than 25 years of service, the State pays 75% of the retired employees' monthly Medicare or non-Medicare premium; for those retiring with over 25 years of service, the State pays the entire health care premium.

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

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 L - 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 $2,621,001 for the fiscal year ended June 30, 2007, 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 M - COMMITMENTS AND CONTINGENCIES

Leases

The DBEDT leases office facilities and equipment under various operating leases expiring through 2011. Future minimum lease commitments of noncancelable operating leases as of June 30, 2007 were as follows:

Fiscal Year Ending June 30,	Amount
2008	$ 209,200
2009	160,600
2010	152,000
2011	53,900
	$ 575,700

NOTE M - COMMITMENTS AND CONTINGENCIES (Continued)

The DBEDT's rental expenditures related to the above leases for the fiscal year ended June 30, 2007 were approximately $152,600.

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, 2007, accumulated sick leave approximated $8,880,000 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 N - RISK MANAGEMENT

GASB State No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, establishes accounting and financial reporting standards for risk financing and insurance-related activities of state governmental entities and requires the recordation of 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 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 $250,000 per occurrence minimum. This policy includes windstorm, earthquake, flood damage, tsunami, and volcanic action coverage. The limit of loss per occurrence is $100,000,000, except for flood and earthquake which individually is a $50,000,000 aggregate loss, and terrorism which is $50,000,000 per occurrence.

NOTE N - RISK MANAGEMENT (Continued)

The State also has a crime insurance policy for various types of coverages with a limit of loss of $10,000,000 per occurrence with a $500,000 deductible per occurrence. 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 $4,000,000 deductible per occurrence. The annual aggregate per occurrence is $10,000,000.

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, 2007, 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 O - PRIOR PERIOD ADJUSTMENTS

The governmental funds financial statements of the DBEDT as of June 30, 2006 did not recognize cash outside of the state treasury, amounting to $3,267,853. Accordingly, total fund balances as of July 1, 2006 have been restated to reflect the proper cash balances that should have been recorded. As a result of the restatement, total fund balances and net assets as of July 1, 2006 increased by $3,267,853.

In addition, the financial statements of the DBEDT as of June 30, 2006 did not recognize $1,259,202 of accumulated depreciation. Accordingly, net assets as of July 1, 2006 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, 2006 decreased by $1,259,202.

The net effect of the prior period adjustments was to increase beginning net assets at July 1, 2006 by $2,008,651.

SUPPLEMENTARY INFORMATION

Department of Business, Economic Development and Tourism
State of Hawaii
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2007

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	$ 63,132
Economic Development Support for Planning Organizations	11.302	07-88-05784	2,795
Coastal Zone Management Administration Awards	11.419	NA03NOS4190082	260,944
	11.419	NA04NOS4190038	686,635
	11.419	NA05NOS4191060	602,086
	11.419	NA06NOS4190159	778,872
			2,328,537
Habitat Conservation	11.463	NA04NMF4630366	94,085
Manufacturing Extension Partnership	11.611	7ONANB3H2000	408,033
Total U.S. Department of Commerce			2,896,582
U.S. DEPARTMENT OF DEFENSE			
Research and Technology Development	12.910	MDA972-02-2-0002	4,624,603
Total U.S. Department of Defense			4,624,603
U.S. ENVIRONMENTAL PROTECTION AGENCY			
Brownfield Pilots Cooperative Agreements	66.811	BL97943301-0	3,340
Brownfield Assessment and Cleanup Cooperative Agreements	66.818	BF96915601-0	132,322
Total U.S. Environmental Protection Agency			135,662
U.S. DEPARTMENT OF ENERGY			
State Energy Program	81.041	DE-FG51-05R021608	287,553
Regional Biomass Energy Programs	81.079	DE-FC51-02R021318	41,199
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training, and Technical Analysis/Assistance	81.117	DE-FC51-05R028612	3,500
	81.117	DE-FC51-03R028610	4,151
	81.117	DE-FG26-06R038601	8,805
	81.117	DE-FG36-96G046013	10,000
	81.117	DE-FG36-04R021598	71,602
			$ 98,058

Department of Business, Economic Development and Tourism
State of Hawaii
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
Fiscal Year Ended June 30, 2007

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant Number		Federal Expenditures
U.S. DEPARTMENT OF ENERGY (continued)				
State Energy Program Special Projects	81.119	DE-FG51-03R021496	$	36,693
	81.119	DE-FG51-03R021484		65,975
	81.119	DE-FG51-04R021585		44,887
	81.119	DE-FG51-05R021657		2,362
	81.119	DE-FG51-05R021668		44,659
				194,576
Development and Deployment of Distributed Energy Activities	N/A	ZDJ-4-33660-01		50,000
Total U.S. Department of Energy				671,386
TOTAL EXPENDITURES OF FEDERAL AWARDS			$	8,328,233

Department of Business, Economic Development and Tourism
State of Hawaii
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2007

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	$ 941,358
State Energy Programs	81.041	48,567
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training, and Technical Analysis/Assistance	81.117	81,602
State Energy Program Special Projects	81.119	100,975
Total provided to subrecipients		$ 1,172,502

PART II

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

NISHIHAMA & KISHIDA, CPAS, INC.
CERTIFIED PUBLIC ACCOUNTANTS

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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 Director
Department of Business, Economic Development and Tourism
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, 2007, which collectively comprise the DBEDT's basic financial statements, and have issued our report thereon dated February 28, 2008, which included a reference to the report of other auditors. 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.

Our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grants, and other matters did not include the Hawaii Tourism Authority, which was audited by the other auditors as referred to in the previous paragraph. The findings, if any, of those other auditors are not included herein.

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 opinions 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 date 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*.

This report is intended solely for the information and use of the DBEDT's management, 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.

Nishihama & Kishida, CPAs, Inc.

Honolulu, Hawaii
February 28, 2008

PART III

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

NISHIHAMA & KISHIDA, CPAS, INC.
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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 Director
Department of Business, Economic Development and Tourism
State of Hawaii:

Compliance

We have audited the compliance of the Department of Business, Economic Development and Tourism (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, 2007. 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, 2007. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2007-01.

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.

The DBEDT's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the DBEDT's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the DBEDT's management, 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.

Nishihama & Kishida, CPAs, Inc.

Honolulu, Hawaii
February 28, 2008

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, 2007

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 - 11.611	Manufacturing Extension Partnership
Department of Defense - 12.910	Research and Technology Development

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

Ref No.	Compliance and Internal Control Findings	Questioned Costs

2007 - 01 Prepare and Maintain Payroll Certifications

The DBEDT did not require employees who work on one federal program to file the required semi-annual payroll certifications. The following is a summary of federal programs which did not complete the required payroll certifications for employees working solely on a federal program.

Program Title	CFDA No.	No. of Employees with No Payroll Certifications
Coastal Zone Management Awards	11.419	6
Manufacturing Extension Partnership	11.611	4

Attachment B, Paragraph 8.h(3) of the Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments* states, "Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee."

The DBEDT was unaware of the requirement for periodic payroll certifications to support charges for employees who worked solely on a single Federal award or cost objective. $ --

Recommendation

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.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Ref
No. **Compliance and Internal Control Findings**

2007
- 01 **Prepare and Maintain Payroll Certifications (Continued)**

DBEDT'S Response

The High Technology Development Corporation will maintain semi-annual payroll certifications for employees working solely on the Manufacturing Extension Partnership program. The certifications for the period ending December 31, 2007 have been completed.

The Hawaii CZM Program will complete a newly developed payroll work certification form in six month increments to coincide with the preparation of federally required semi-annual program performance reports. Corrective action will take effect immediately, and the first certification is due by June 30, 2008.

PART V

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

This section contains the current status of the prior auditors' recommendation. The recommendation is referenced to the pages of the previous audit report for the fiscal year ended June 30, 2006, dated March 29, 2007.

Recommendation	Federal CFDA Number	Status
SECTION III - FEDERAL AWARD FINDINGS		
06-01 Subrecipient Monitoring (pages 48 - 49)		
We recommend that management establish and enforce policies requiring subrecipients who receive more than $500,000 of federal funding to submit audit reports to the Program on a timely basis to ensure compliance with OMB Circular A-133.	11.419	Accomplished. Management of the Coastal Zone Management Administration Awards program has added language to their contracts requiring subrecipients, who are subject to the single audit requirements under OMB Circular A-133, to submit single audit reports or program-specific reports within 30 days after receipt of the audit reports.