

# **HAWAII GREEN INFRASTRUCTURE AUTHORITY**

## **FINANCIAL STATEMENTS WITH INDEPENDENT AUDITOR'S REPORT**

Fiscal Year Ended June 30, 2015



December 30, 2015

Ms. Tara Young  
Hawaii Green Infrastructure Authority  
250 South Hotel Street  
Honolulu, Hawaii 96813

Dear Ms. Young:

This is our report on the financial audit of the Hawaii Green Infrastructure Authority as of and for the fiscal year ended June 30, 2015. Our audit was performed in accordance with the terms of our contract with the Hawaii Green Infrastructure Authority and the State of Hawaii, Department of Business, Economic Development and Tourism.

### **OBJECTIVES OF THE AUDIT**

The primary purpose of our audit was to form opinions on the fairness of the presentation of the Hawaii Green Infrastructure Authority's financial statements as of and for the fiscal year ended June 30, 2015.

### **SCOPE OF THE AUDIT**

Our audit was performed in accordance with auditing standards generally accepted in the United States of America as prescribed by the American Institute of Certified Public Accountants; and *Government Auditing Standards*, issued by the Comptroller General of the United States. The scope of our audit included an examination of the transactions and accounting records of the Hawaii Green Infrastructure Authority for the year ended June 30, 2015.

## ORGANIZATION OF THE REPORT

This report is presented as follows:

- Part I - Financial section
- Part II - Report on internal control over financial reporting and on compliance and other matters

We wish to express our sincere appreciation for the excellent cooperation and assistance extended by the officers and staff of the Hawaii Green Infrastructure Authority.

Sincerely,

N&K CPAs, Inc.

A handwritten signature in black ink, appearing to read "Brian S. Isobe", with a long, sweeping horizontal flourish extending to the right.

Brian S. Isobe  
Principal

# HAWAII GREEN INFRASTRUCTURE AUTHORITY

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**HAWAII GREEN INFRASTRUCTURE AUTHORITY**

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**PART I**  
**FINANCIAL SECTION**

## INDEPENDENT AUDITOR'S REPORT

Hawaii Green Infrastructure Authority

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the special revenue fund, as well as the budgetary comparison for the special revenue fund of the Hawaii Green Infrastructure Authority (HGIA) as of and for the fiscal year ended June 30, 2015 and the related notes to the financial statements, which collectively comprise the HGIA's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that

are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the special revenue fund of the HGIA as of June 30, 2015, and the respective changes in financial position and the respective budgetary comparison for the special revenue fund for the fiscal year then ended, in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As discussed in Note A, the financial statements of the HGIA are intended to present the financial position and the changes in financial position of only that portion of the governmental activities and the special revenue fund, as well as the budgetary comparison for the special revenue fund of the State of Hawaii and the State of Hawaii, Department of Business and Economic Development and Tourism that are attributable to the transactions of the HGIA. They do not purport to, and do not, present fairly the financial position of the State of Hawaii or the State of Hawaii, Department of Economic Development and Tourism as of June 30, 2015, and the changes in its financial position for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's



responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2015 on our consideration of the HGIA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the HGIA's internal control over financial reporting and compliance.

*N&K CPAs, Inc.*

Honolulu, Hawaii  
December 30, 2015

**Hawaii Green Infrastructure Authority**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2015**

The following management's discussion and analysis provides an overview of the Hawaii Green Infrastructure Authority (HGIA) financial activities for the fiscal year ended June 30, 2015. Readers should also review the basic financial statements and notes to enhance their understanding of the HGIA's financial performance.

**Financial Highlights**

The key government-wide financial highlights for the fiscal year ended June 30, 2015 are as follows:

- Total assets exceeded liabilities by approximately \$145,941,000 (net position).
- Total liabilities were approximately \$56,000 as of June 30, 2015.

**Overview of the Basic Financial Statements**

The basic financial statements are comprised of government-wide and fund financial statements, which provide different views of the HGIA:

- Government-wide financial statements provide both long-term and short-term information about the HGIA's overall financial position and changes in financial position. The statements are presented on an accrual basis of accounting and consist of the Statement of Net Position and Statement of Activities.
- Fund financial statements focus on individual parts of the HGIA and report operations in more detail than the government-wide statements. These statements are presented on a modified accrual basis of accounting and tell how activities were financed in the short-term as well as what remains for future spending.
- The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

**Government-wide Financial Analysis**

This is the first year of operations for the HGIA and therefore there are no financial data for the prior fiscal year for the purpose of providing comparative information for the MD&A. In future years, when prior year information is available, a comparative analysis of fund financial data will be presented.

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

**Hawaii Green Infrastructure Authority  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
June 30, 2015**

**Exhibit A-1  
Government-wide Statement of Net Position  
June 30, 2015**

	<b>Governmental Activities</b>
<b>Assets:</b>	
Noncapital assets	\$ <u>145,996,746</u>
Total assets	\$ <u><u>145,996,746</u></u>
<b>Liabilities:</b>	
Current	\$ 33,764
Noncurrent	<u>22,180</u>
Total liabilities	<u>55,944</u>
<b>Net position:</b>	
Restricted for Hawaii green infrastructure	<u>145,940,802</u>
Total net position	<u>145,940,802</u>
Total liabilities and net position	\$ <u><u>145,996,746</u></u>

**Analysis of Net Position**

Total assets of \$145,996,746 consisted of cash and cash equivalents.

Total liabilities were \$55,944 as of June 30, 2015, of which \$33,764 were current liabilities and \$22,180 were noncurrent liabilities.

The net position of \$145,940,802 was restricted for the HGIA program.

**Hawaii Green Infrastructure Authority  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
June 30, 2015**

**Change in Net Position**

The following financial information was derived from the government-wide statement of activities and reflects how the HGIA's net position changed during the year ended:

**Exhibit A-2  
Government-wide Changes of Net Position  
Fiscal year ended June 30, 2015**

	<b>Governmental Activities</b>
Revenues	
General revenues:	
Interest income from investments	\$ 14,035
Revenue bond proceeds	146,323,248
Other revenues	309,702
Total	146,646,985
Expenses	
Hawaii green infrastructure	706,183
Change in net position	\$ 145,940,802

**Analysis of Change in Net Position**

Bond proceeds of \$146,323,248 was a portion of the \$150 million of Green Energy Securitization Bonds, 2014 series A bonds issued by the Department of Business, Economic Development and Tourism, to provide funding for the HGIA's Green Energy Market Securitization (GEMS) program. Other revenues amounted to \$309,702, which primarily consisted of federal grant monies approved for GEMS administrative costs. Interest income represents earnings on investments. Investments were in highly liquid assets to provide for readily available funding for disbursing loans in the GEMS program.

Total expenses for the HGIA were \$706,183 for the year ended June 30, 2015. Expenses were primarily to start up the GEMS program.

**Hawaii Green Infrastructure Authority**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**June 30, 2015**

**Fund Financial Analysis**

The HGIA has only one fund, the special revenue fund.

The HGIA received bond proceeds of \$146,323,248 that were a portion of the bonds issued by the Department of Business, Economic Development and Tourism, to provide funding for the HGIA's GEMS program.

Expenditures totaled approximately \$683,000 for the fiscal year ended June 30, 2015.

At the end of the fiscal year, fund balance amounted to approximately \$145,964,000.

**Budgetary Highlights**

Actual expenditures on a budgetary basis were approximately \$1,529,000 for the year ended June 30, 2015 resulting in a variance between the final budget and actual expenditures on a budgetary basis of approximately \$148,471,000. The favorable budget variance was because no funds were deployed for the planned loan program.

**Request for Information**

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Executive Director, Hawaii Green Infrastructure Authority, 250 South Hotel Street, Honolulu, Hawaii 96813. General information about the HGIA can be found at the website, [gems.hawaii.gov](http://gems.hawaii.gov).

**Hawaii Green Infrastructure Authority**  
**STATEMENT OF NET POSITION**  
**June 30, 2015**

	Governmental Activities
<b>ASSETS</b>	
Cash and cash equivalents	\$ <u>145,996,746</u>
Total assets	\$ <u><u>145,996,746</u></u>
<b>LIABILITIES AND NET POSITION</b>	
Current liabilities	
Vouchers and contracts payable	\$ 1,110
Accrued wages and employee benefits payable	31,804
Accrued compensated absences	<u>850</u>
Total current liabilities	33,764
Noncurrent liabilities	
Accrued compensated absences, less current portion	<u>22,180</u>
Total liabilities	<u>55,944</u>
Net position	
Restricted for Hawaii green infrastructure	<u>145,940,802</u>
Total net position	<u>145,940,802</u>
Total liabilities and net position	\$ <u><u>145,996,746</u></u>

See accompanying notes to the financial statements.

**Hawaii Green Infrastructure Authority**  
**STATEMENT OF ACTIVITIES**  
**Fiscal Year Ended June 30, 2015**

**GOVERNMENTAL ACTIVITIES**

Expenses - Hawaii green infrastructure \$ 706,183

**GENERAL REVENUES**

Interest income 14,035  
Revenue bond proceeds 146,323,248  
Other revenues 309,702

Total general revenues 146,646,985

**CHANGE IN NET POSITION** 145,940,802

**NET POSITION AT JULY 1, 2014**           --

**NET POSITION AT JUNE 30, 2015** \$ 145,940,802

See accompanying notes to the financial statements.

**Hawaii Green Infrastructure Authority  
BALANCE SHEET - GOVERNMENTAL FUND  
June 30, 2015**

		Special Revenue Fund
<b>ASSETS</b>		
Cash and cash equivalents	\$	<u>145,996,746</u>
Total assets	\$	<u><u>145,996,746</u></u>
<b>LIABILITIES AND FUND BALANCE</b>		
Liabilities		
Vouchers and contracts payable	\$	1,110
Accrued wages and employee benefits payable		<u>31,804</u>
Total liabilities		<u>32,914</u>
Fund balance		
Restricted for Hawaii green infrastructure		<u>145,963,832</u>
Total fund balance		<u>145,963,832</u>
Total liabilities and fund balance	\$	<u><u>145,996,746</u></u>

See accompanying notes to the financial statements.



**Hawaii Green Infrastructure Authority**  
**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**  
**Fiscal Year Ended June 30, 2015**

<b>Fund balance - governmental fund</b>	\$ 145,963,832
<b>Amounts reported for governmental activities in the statement of net position are different because:</b>	
Accrued compensated absences are not due in the current period and therefore are not reported in the governmental fund	<u>(23,030)</u>
<b>Net position of governmental activities</b>	<u>\$ 145,940,802</u>

See accompanying notes to the financial statements.

**Hawaii Green Infrastructure Authority**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -**  
**GOVERNMENTAL FUND**  
**Fiscal Year Ended June 30, 2015**

	<u>Special Revenue Fund</u>
<b>REVENUES</b>	
Interest income from investments	\$ 14,035
Other revenues	<u>309,702</u>
	<u>323,737</u>
<b>EXPENDITURES</b>	
Hawaii green infrastructure	<u>683,153</u>
	<u>683,153</u>
<b>DEFICIENCY OF REVENUES UNDER EXPENDITURES</b>	<u>(359,416)</u>
<b>OTHER FINANCING SOURCES</b>	
Revenue bonds - par	<u>146,323,248</u>
Total other financing sources	<u>146,323,248</u>
<b>NET CHANGE IN FUND BALANCE</b>	145,963,832
<b>FUND BALANCE AT JULY 1, 2014</b>	<u>          --</u>
<b>FUND BALANCE AT JUNE 30, 2015</b>	<u>\$ 145,963,832</u>

See accompanying notes to the financial statements.

**Hawaii Green Infrastructure Authority**  
**RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF REVENUES,**  
**EXPENDITURES AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES**  
**Fiscal Year Ended June 30, 2015**

<b>Net change in fund balance - total governmental fund</b>	\$ 145,963,832
<b>Amounts reported for governmental activities in the statement of activities are different because:</b>	
Change in 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	<u>(23,030)</u>
<b>Change in net position of governmental activities</b>	\$ <u>145,940,802</u>

See accompanying notes to the financial statements.

**Hawaii Green Infrastructure Authority  
 STATEMENT OF EXPENDITURES -  
 BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) - SPECIAL REVENUE FUND  
 Fiscal Year Ended June 30, 2015**

	<u>Budgeted Amounts</u>		<u>Actual on</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Basis</u>	
Expenditures - Hawaii green infrastructure	\$ <u>150,000,000</u>	\$ <u>150,000,000</u>	\$ <u>1,528,882</u>	\$ <u>148,471,118</u>

See accompanying notes to the financial statements.

**Hawaii Green Infrastructure Authority**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE A - FINANCIAL REPORTING ENTITY**

The Hawaii Green Infrastructure Authority (HGIA) was created by Act 211, Session Laws of Hawaii 2013 to identify and provide innovative ways to increase access to clean energy in the State of Hawaii.

The HGIA is part of the executive branch of the State of Hawaii (the State). HGIA is administratively attached to the Department of Business, Economic Development and Tourism of the State of Hawaii (DBEDT). The HGIA's basic financial statements are intended to present the financial position and changes in financial position of only that portion of the governmental activities and the special revenue, as well as the budgetary comparison for the special revenue fund of the State and DBEDT that are attributable to the transactions of the HGIA. They do not purport to, and do not, present fairly the financial position of the State or the DBEDT as of June 30, 2015. The State Comptroller maintains the central accounts for all State funds and publishes comprehensive financial statements for the State annually, which include the HGIA's financial activities.

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the HGIA have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) as prescribed by the Governmental Accounting Standards Board. The following is a summary of the significant accounting policies in the preparation of such financial statements:

(1) ***Basis of Accounting and Measurement Focus***

**Government-Wide Financial Statements** - The government-wide statement of net position and statement of activities are accounted for on a flow of economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operation of these activities are included on the statement of net position. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

**Governmental Fund Financial Statements** - The governmental fund financial statements 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 this fund present increases (i.e., revenues) and decreases (i.e., expenditures) in fund balance.

The modified-accrual basis of accounting is used by the governmental fund. Under the modified-accrual basis of accounting, revenues 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.

**Hawaii Green Infrastructure Authority**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences are recorded only when payment is due.

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 fund. Encumbrances outstanding at year-end do not constitute expenditures or liabilities.

- (2) **Fund Accounting** - The financial transactions of the HGIA are recorded in a fund. A fund is considered a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate the legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

The HGIA has only one fund, the special revenue fund. The special revenue fund accounts for the Hawaii Green Infrastructure Loan Program. Receipts may include loan repayments and interest earned on program loans made and investments of unused funds. Initial funding is from proceeds of bonds issued by DBEDT.

- (3) **Cash and Cash Equivalents** - Cash and cash equivalents consist of amounts held in the State Treasury and investments in money market funds held separately from the State Treasury. Cash in the State Treasury is pooled with funds from other State agencies and departments and deposited into approved financial institutions or participates in the State Treasury Investment Pool.

Cash accounts that participate in the investment pool accrue interest based on the weighted average cash balances of each account.

Investments held separately from the State Treasury are reported at fair value.

- (4) **Compensated Absences** - Vacation leave is accrued at current salary rates. Vacation leave accumulates at the rate of one and three-quarters working days for each month of service up to a limit of ninety days at calendar year-end and is convertible to cash payment upon termination of employment. Accrued compensated absences is reported in the statement of net position.

- (5) **Fund Balance** - Fund balance is classified using a hierarchy based on the extent to which HGIA is bound to follow constraints on how resources can be spent. Classifications include:

**Nonspendable Fund Balance** - Includes amounts that are (a) not in a spendable form or (b) legally or contractually required to remain intact.

**Hawaii Green Infrastructure Authority**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Restricted Fund Balance** - Includes amounts restricted to a specific purpose imposed by either (a) externally parties (e.g. creditors, grantors, contributors or other governments) or (b) imposed by law through constitutional provisions or enabling legislation.

**Committed Fund Balance** - Includes amounts that can only be used for specific purposes based on constraints imposed by formal action of the State Legislature.

**Assigned Fund Balance** - Includes amounts that are constrained by the Authority's board for specific purposes, but are neither restricted nor committed.

**Unassigned Fund Balance** - This classification includes any negative residual balance when actual expenditures exceed available resources of the fund.

The HGIA has only restricted fund balance.

- (6) **Intrafund Transactions** - Transfers of financial resources within the same fund are eliminated.
- (7) **Use of Estimates** - The preparation of the basic financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE C - BUDGETING AND BUDGETARY CONTROL**

In the Statement of Expenditures - Budget and Actual (non-GAAP budgetary basis) - Special Revenue Fund, the amounts reflected as budgeted expenditures are derived from acts of the State Legislature and from other authorizations contained in specific appropriation acts in various Session Laws of Hawaii.

The amount reflected as actual expenditures has been adjusted to the budgetary basis by the inclusion of encumbrances that results in comparability with budgeted expenditures.

**Hawaii Green Infrastructure Authority**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE C - BUDGETING AND BUDGETARY CONTROL (Continued)**

A reconciliation of the expenditures as shown on the Statement of Expenditures - Budget and Actual (non-GAAP budgetary basis) - Special Revenue Fund to expenditures as shown on the Statement of Revenues, Expenditures and Change in Fund Balance (GAAP basis) is presented below:

	Amount
Expenditures - actual on a budgetary basis	\$ 1,528,882
Reserve for encumbrances at year end	(878,643)
Accruals	32,914
Expenditures - GAAP basis	\$ 683,153

**NOTE D - CASH AND CASH EQUIVALENTS**

(1) ***Cash***

The HGIA's cash balance is maintained in the State Treasury. The State Director of Finance (the Director) is responsible for the safekeeping of all moneys paid into the State Treasury. The Director pools and invests any moneys of the State, which in the Director's judgment, are in excess of amounts necessary for meeting the immediate requirements of the State.

For demand or checking accounts and time certificates of deposits, the State requires that the depository banks pledge collateral based on daily available bank balances to limit its exposure to custodial credit risk. The use of daily available bank balances to determine collateral requirements results in the available balances being under collateralized at times during the fiscal year. All securities pledged as collateral are held either by the State Treasury or by the State's fiscal agents in the name of the State.

Information relating to custodial credit risk of cash deposits in the State Treasury is available on a statewide basis and not for individual departments or agencies.

(2) ***Investments***

Information relating to interest rate risk, credit risk, custodial risk, and concentration of credit risk of investments in the State Treasury is available on a statewide basis and not for individual departments or agencies.

For investments held outside of the State Treasury, the HGIA does not have an investment policy related to interest rate risk and credit risk.



**Hawaii Green Infrastructure Authority**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE D - CASH AND CASH EQUIVALENTS (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.

Investments held outside the State Treasury in a money market fund totaled approximately \$143,255,000 and the weighted average maturity was less than one year as of June 30, 2015.

**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 maintaining a Triple-A rating.

All investments held outside the State treasury in a money market fund is rated AAAM as of June 30, 2015.

**Custodial Credit Risk** - For an investment, custodial 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 collateralized 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.

Because all investments held outside the State Treasury are held in a money market fund, there is no custodial credit risk or concentration of credit risk for these investments.

**Hawaii Green Infrastructure Authority**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE E - LONG-TERM LIABILITIES**

The following is the changes in long-term liabilities for the fiscal year ended June 30, 2015:

	Accrued Compensated Absences
Balance at July 1, 2014	\$ --
Additions	23,913
Deductions	<u>(883)</u>
Balance at June 30, 2015	23,030
Less: Current portion	<u>850</u>
Noncurrent portion	\$ <u><u>22,180</u></u>

**NOTE F - REVENUE BONDS**

In November 2014, the State of Hawaii, Department of Business, Economic Development and Tourism issued \$150 million in Green Energy Securitization Bonds, 2014 Series A (Bonds).

The State used the proceeds of the bonds, net of costs of issuance and the funding of a debt service reserve subaccount, to fund the Hawaii Green Infrastructure Loan Program (Loan Program), which is administered by the Hawaii Green Infrastructure Authority. The Loan Program serves the environmentally beneficial purpose of financing the purchase and installation of clean or renewable energy systems and energy efficiency projects for Hawaii ratepayers. None of the net proceeds of the Bonds used to fund the Loan Program, the loans, the repayments thereon, or the other assets of the Loan Program will serve as security for the Bonds.

The Bonds are special and limited obligations of the State payable from and secured by a pledge of Green Infrastructure Fee revenues and the Green Infrastructure Property and Accounts held under the Indenture. Green Infrastructure Property consists generally of the right to impose and collect, and to obtain periodic true-up adjustments to a non-bypassable fee on all electric customers of Hawaiian Electric Company, Inc., Hawaii Electric Light Company Inc., and Maui Electric Company, Limited, collectively the Service Providers (the Green Infrastructure Fee).

The Bonds do not constitute general or moral obligation of the State nor a charge upon the general fund of the State and the full faith and credit of the State is not pledged to payment of principal of or interest on the Bonds. No portion of the bonds is an obligation of the HGIA and therefore no bond obligations are recognized by the HGIA.

**Hawaii Green Infrastructure Authority**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE F - REVENUE BONDS (Continued)**

By order of the Public Utilities Commission, any loan repayments received by HGIA in excess of the loan program administrative costs is to be paid annually to replenish the Public Benefits Fee. Any loan repayments in excess of the loan program administrative costs and replenishment of the Public Benefits fee may be used to fund additional program loans.

**NOTE G - RETIREMENT PLAN**

***Plan Description***

All eligible employees of the HGIA are provided with pensions through a cost-sharing multiple-employer defined benefit pension plan administered by the Employees' Retirement System of the State of Hawaii (ERS). Benefit terms, eligibility, and contribution requirements are established by HRS Chapter 88 and can be amended through legislation. The ERS issues a publicly available financial report that can be obtained at ERS's website: <http://ers.ehawaii.gov/>.

***Benefits Provided***

The ERS provides retirement, disability, and death benefits that are covered by the provisions of the noncontributory, contributory, and hybrid retirement plans. The three plans provide a monthly retirement allowance equal to the benefit multiplier (generally 1.25% or 2%) multiplied by the average final compensation multiplied by years of credited service. The benefit multiplier decreased by 0.25% for new hybrid and contributory plan members hired after June 30, 2012. Average final compensation is an average of the highest salaries during any 3 years of credited service, excluding any salary paid in lieu of vacation for employees hired January 1, 1971 or later and the average of the highest salaries during any five years of credited service including any salary paid in lieu of vacation for employees hired prior to January 1, 1971.

For members hired before July 1, 2012, the original retirement allowance is increased by 2.5% each July 1 following the calendar year of retirement. This cumulative benefit is not compounded and increases each year by 2.5% of the original retirement allowance without a ceiling (2.5% of the original retirement allowance the first year, 5.0% the second year, 7.5% the third year, etc.). For members hired after June 30, 2012 the post-retirement annuity increase was decreased to 1.5% per year.

**Noncontributory Plan**

**Retirement Benefits:**

General employees' retirement benefits are determined as 1.25% of average final compensation multiplied by the years of credited service. Employees with 10 years of credited service are eligible to retire at age 62. Employees with 30 years of credited service are eligible to retire at age 55.

**Hawaii Green Infrastructure Authority**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE G - RETIREMENT PLAN (Continued)**

Disability Benefits:

Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 12.5% of average final compensation.

Death Benefits:

For service-connected deaths, the surviving spouse / reciprocal beneficiary receives a monthly benefit of 30% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. Additional benefits are payable to surviving dependent children up to age 18. If there is no spouse / reciprocal beneficiary or dependent children, no benefit is payable.

Ten years of credited service is required for ordinary death benefits. For ordinary death benefits, the surviving spouse / reciprocal beneficiary (until remarriage / re-entry into a new reciprocal beneficiary relationship) and dependent children (up to age 18) receive a benefit equal to a percentage of member's accrued maximum allowance unreduced for age or, if the member was eligible for retirement at the time of death, the surviving spouse / reciprocal beneficiary receives 100% joint and survivor lifetime pension.

**Contributory Plan for Employees Hired Prior to July 1, 2012**

Retirement Benefits:

General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with 5 years of credited service are eligible to retire at age 55.

Disability Benefits:

Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 66-2/3% of their average final compensation. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 30% of average final compensation.

Death Benefits:

For service-connected deaths, the surviving spouse / reciprocal beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse / reciprocal beneficiary, surviving children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse / reciprocal beneficiary or dependent children / parents, the ordinary death benefit is payable to the designated beneficiary.

**Hawaii Green Infrastructure Authority**  
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**NOTE G - RETIREMENT PLAN (Continued)**

Ordinary death benefits are available to employees who were active at time of death with at least 1 year of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest plus a percentage of the salary earned in the 12 months preceding death, or 50% Joint and Survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least 10 years of service and designated one beneficiary, or 100% Joint and Survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

**Contributory Plan for Employees Hired After June 30, 2012**

Retirement Benefits:

Judges and elected officers' retirement benefits are determined as 3.0% of average final compensation multiplied by the years of credited service up to a maximum of 75%. Judges and elected officers with 10 years of credited service are eligible to retire at age 60.

Disability and Death Benefits:

Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 50% of their average final compensation plus refund of contributions and accrued interest. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are 3.0% of average final compensation for each year of service for judges and elected officers.

Death benefits for contributory plan members hired after June 30, 2012 are generally the same as those for contributory plan members hired June 30, 2012 and prior.

**Hybrid Plan for Employees Hired Prior to July 1, 2012**

Retirement Benefits:

General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with 5 years of credited service are eligible to retire at age 62. General employees with 30 years of credited service are eligible to retire at age 55.

Disability Benefits:

Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation plus refund of their contributions and accrued interest. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 25% of average final compensation.

Death Benefits:

For service-connected deaths, the surviving spouse / reciprocal beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly

**Hawaii Green Infrastructure Authority**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE G - RETIREMENT PLAN (Continued)**

benefit of 50% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse / reciprocal beneficiary, surviving children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse / reciprocal beneficiary or dependent children / parents, the ordinary death benefit is payable to the designated beneficiary.

Ordinary death benefits are available to employees who were active at time of death with at least 5 years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest plus a percentage multiplied by 150%, or 50% Joint and Survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least 10 years of service and designated one beneficiary, or 100% Joint and Survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

**Hybrid Plan for Employees Hired After June 30, 2012**

Retirement Benefits:

General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with 10 years of credited service are eligible to retire at age 65. Employees with 30 years of credited service are eligible to retire at age 60.

Disability and Death Benefits:

Provisions for disability and death benefits generally remain the same except for ordinary death benefits. Ordinary death benefits are available to employees who were active at time of death with at least 10 years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest plus a percentage multiplied by 50% Joint and Survivor lifetime pension if the member was not eligible for retirement at the time of death and designated one beneficiary, or 100% Joint and Survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

***Contributions***

Contributions are established by HRS Chapter 88 and may be amended through legislation. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. Since July 1, 2005, the employer contribution rate is a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. The contribution rates for fiscal year 2015 were 22.00% for police and firefighters and 15.50% for all other employees.

The HGIA's contribution requirement as of June 30, 2015 was approximately \$26,000. The contribution rate for the fiscal years ended June 30, 2015, were 16.50%. Measurement of assets and actuarial valuations are made for the ERS as a whole and are not separately computed for individual participating employers such as the Department.

**Hawaii Green Infrastructure Authority**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE G - RETIREMENT PLAN (Continued)**

The employer is required to make all contributions for members in the noncontributory plan. For contributory plan employees hired prior to July 1, 2012, general employees are required to contribute 7.8% of their salary. For contributory plan employees hired after June 30, 2012, judges and elected officials are required to contribute 9.8% of their salary. Hybrid plan members hired prior July 1, 2012 are required to contribute 6.0% of their salary. Hybrid plan members hired after June 30, 2012 are required to contribute 8.0% of their salary.

Measurement of the actuarial valuation is made for the State as a whole and is not separately computed for the individual state departments and agencies such as the HGIA. It is the State's policy to recognize the proportionate share of the pension liability, pension expense, deferred inflows related to pensions, and deferred outflows related to pension for only component units and proprietary funds that are reported separately in the State's Comprehensive Annual Financial Report (CAFR). Therefore, the share of the pension liability, pension expense, deferred inflows related to pensions, and deferred outflows related to pension for the HGIA are not included in the financial statements. The State's CAFR includes the note disclosures and required supplementary information on the State's pension plans.

Pension expenditures included in the statement of revenues, expenditures and changes in fund balance for the HGIA's special revenue fund totaled approximately \$26,000 for the fiscal year ended June 30, 2015.

**NOTE H - POST-RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS**

In addition to providing pension benefits, the State, pursuant to HRS Chapter 87A, provides certain healthcare and life insurance benefits to all qualified retirees under an agent multiple-employer defined benefit plan comprised of the State and counties. The Employer-Union Health Benefits Trust Fund issues a publicly available financial report that includes the financial statements and required supplementary information, which is available on-line at their website [www.eutf.hawaii.gov](http://www.eutf.hawaii.gov) or by contacting them at P.O. Box 2121, Honolulu, Hawaii 96805-2121.

For employees hired before July 1, 1996, the State pays the entire monthly contribution for employees retiring with 10 or more years of credited service, and 50% of the monthly contribution for employees retiring with fewer than 10 years of credited service. A retiree can elect family plan to cover dependents.

For employees hired after June 30, 1996 but before July 1, 2001, 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 base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For those employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Retirees in this category can elect a family plan to cover dependents.

**Hawaii Green Infrastructure Authority**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE H - POST-RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS**  
**(Continued)**

For employees hired on or after July 1, 2001, 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 base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For those employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Only single plan coverage is provided for retirees in this category. Retirees can elect family coverage but must pay the difference.

The State is required to contribute the annual required contribution (ARC) of the employer, an amount that is actuarially determined. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Measurement of the actuarial valuation and the ARC are made for the State as a whole and are not separately computed for the individual state departments and agencies such as the HGIA. The State has only computed the allocation of the other postemployment benefit (OPEB) costs to component units and proprietary funds that are reported separately in the State's Comprehensive Annual Financial Report (CAFR). Therefore, the OPEB costs for the HGIA was not available and are not included in the financial statements. The State's CAFR includes the note disclosures and required supplementary information on the State's OPEB plans.

The HGIA's contributions made to the plan were approximately \$16,000 for the fiscal year ended June 30, 2015.

**NOTE I - 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 an 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 investments of funds and assets in the plan, but has the duty of due care that would be required of an ordinary prudent investor.



**Hawaii Green Infrastructure Authority**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE J - COMMITMENTS AND CONTINGENCIES**

***Encumbrances***

Encumbrances totaled approximately \$879,000 as of June 30, 2015.

***Accumulated Sick Leave***

Employees earn sick leave at the rate of 14 hours for each month of service without limit, but can be taken only in the event of illness and is not convertible to pay upon termination of employment. However, a permanent employee of the HGIA who retires or leaves government service in good standing with sixty days or more of unused sick leave is entitled to additional service credit in the ERS. Accumulated sick leave as of June 30, 2015 approximated \$19,600.

**NOTE K - RISK MANAGEMENT**

***Insurance Coverage***

Insurance coverage is maintained at the State level. The State records a liability for risk financing and insurance related losses if it is determined that a loss has been incurred and the amount can be reasonably estimated. The State retains various risks and insures certain excess layers with commercial insurance companies. The excess layers insured with commercial insurance companies are consistent with the prior fiscal year. Settled claims have not exceeded the coverage provided by commercial insurance companies in any of the past three fiscal years. A summary of the State's underwriting risks is as follows:

**Property Insurance**

The State has an insurance policy with a variety of insurers in a variety of layers for property coverage. The deductible for coverage is 3% of loss subject to a \$1,000,000 per occurrence minimum. This policy includes windstorm, earthquake, flood damage, terrorism, and boiler and machinery coverage. The limit of loss per occurrence is \$200,000,000, except for earthquake which individually is a \$100,000,000 aggregate loss and terrorism which is \$50,000,000 per occurrence and a \$10,000 deductible.

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

**General Liability (Including Torts)**

Claims under \$10,000 and automobile claims under \$15,000 are handled by the risk management office of the Department of Accounting and General Services. All other claims are handled by the Department of Attorney General. The State has personal injury and property damage liability, including automobile and public errors and

**Hawaii Green Infrastructure Authority**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE K - RISK MANAGEMENT (Continued)**

omissions, insurance policy in force with a \$4,000,000 self-insured retention 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 HGIA is covered by the State's self-insured workers' compensation program for medical expenses of its insured employees. However, temporary wage loss replacement benefits are paid to those employees by the HGIA. There were no benefits paid by the HGIA for the fiscal year ended June 30, 2015.

**PART II**

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

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

**INDEPENDENT AUDITOR'S REPORT**

Hawaii Green Infrastructure Authority

We have audited, 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, the financial statements of the governmental activities and the special revenue fund, as well as the budgetary comparison for the special revenue fund of the Hawaii Green Infrastructure Authority (the HGIA), as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the HGIA's basic financial statements, and have issued our report thereon dated December 30, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the HGIA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 HGIA's internal control. Accordingly, we do not express an opinion on the effectiveness of the HGIA's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during the audit we did not identify any deficiencies in internal control that we considered to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*N&K CPAs, Inc.*

Honolulu, Hawaii  
December 30, 2015