HAWAII GREEN INFRASTRUCTURE AUTHORITY

FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORT

Fiscal Year Ended June 30, 2016

N&K CPAs, Inc.
ACCOUNTANTS | CONSULTANTS

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PART I

FINANCIAL SECTION

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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 of the Hawaii Green Infrastructure Authority (HGIA) as of and for the fiscal year ended June 30, 2016, 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, 2016, 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 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, 2016, and the changes in its financial position for the fiscal year then ended in accordance 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 8 through 11 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 9, 2016 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 HGIA's internal control over financial reporting and compliance.

N&K CPAs, Inc.

Honolulu, Hawaii
December 9, 2016

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, 2016. Readers should also review the basic financial statements and the related notes to the financial statements 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, 2016 are as follows:

- Total assets exceeded liabilities by approximately $144,990,000 (net position). This is a less than 1% decrease from $145,941,000 as of June 30, 2015, which was the first year of operations.

- Total liabilities were approximately $65,000 as of June 30, 2016, an increase of 16% or $9,000 from $56,000 as of June 30, 2015.

Overview of the Basic Financial Statements

The basic financial statements are comprised of (1) government-wide; (2) fund financial statements; and (3) notes to the basic financial statements.

- 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 basic financial statements.

Government-wide Financial Analysis

The following discussion highlights management's understanding of the key aspects of the HGIA's financial activities.

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

Exhibit A-1
Condensed Statements of Net Position
June 30,

	Governmental Activities		2016 - 2015	
	2016	2015	Increase (decrease)	Percentage change
Assets:				
Noncapital assets	$ 145,054,524	$ 145,996,746	$ (942,222)	(0.65) %
Total assets	$ 145,054,524	$ 145,996,746	$ (942,222)	(0.65) %
Liabilities:				
Current	$ 63,743	$ 33,764	$ 29,979	88.79 %
Noncurrent	1,170	22,180	(21,010)	(94.72) %
Total liabilities	64,913	55,944	8,969	16.03 %
Net position:				
Restricted for Hawaii green infrastructure	144,989,611	145,940,802	(951,191)	(0.65) %
Total net position	144,989,611	145,940,802	(951,191)	(0.65) %
Total liabilities and net position	$ 145,054,524	$ 145,996,746	$ (942,222)	(0.65) %

Analysis of Net Position

Total assets of $145,054,524 consisted of cash and cash equivalents, loan and loan interest receivables. This is a less than 1% decrease from $145,996,746 as of June 30, 2015.

Total liabilities were $64,913 as of June 30, 2016, of which $63,743 were current liabilities and $1,170 were noncurrent liabilities. This is an increase of 16% or $8,969 from June 30, 2015. The increase was due to increase in liabilities for wages and related fringe benefits, loan financing and loan servicing.

Total government-wide net position decreased by $951,191, or less than 1%. The decrease resulted from a greater amount of wages and fringe benefit expenditures incurred as vacant positons were filled and also, more contractual services expended due to the issuance of green infrastructure loans in FY 2016.

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
Condensed Statement of Activities
Fiscal Years Ended June 30,

	Governmental Activities		2016-2015	
	2016	**2015**	Increase (decrease)	Percentage change
Revenues				
Program revenues				
Charges for services	$ 7,535	$ --	$ 7,535	-- %
General revenues:				
Interest income	112,930	14,035	98,895	704.63 %
Revenue bond proceeds	--	146,323,248	(146,323,248)	(100.00) %
Other revenues	--	309,702	(309,702)	(100.00) %
Total	120,465	146,646,985	(146,526,520)	(99.92) %
Expenses				
Hawaii green infrastructure	1,071,656	706,183	365,473	51.75 %
Change in net position	$ (951,191)	$ 145,940,802	$ (146,891,993)	(100.65) %

Analysis of Change in Net Position

In 2015, HGIA received bond proceeds of $146,323,248, which 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, during the fiscal year ended June 30, 2015, 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. Interest income from investments was $112,930 for the fiscal year ended June 30, 2016. Total interest income from investments was $14,035 for the fiscal year ended June 30, 2015.

Total expenses for the HGIA were $1,071,656 for the fiscal year ended June 30, 2016, compared to $706,183 for the fiscal year ended June 30, 2015. The increase in expenditures was due to a greater amount incurred for wages and related fringe benefit expenses and contractual services to administer the issuance of green infrastructure loans in FY 2016.

Fund Financial Analysis

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

The HGIA received bond proceeds of $146,323,248 during fiscal year ended June 30, 2015, 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 $1,089,000 and $683,000 for the fiscal year ended June 30, 2016 and 2015, respectively.

At the end of the fiscal year June 30, 2016 and 2015, fund balance amounted to approximately $144,996,000 and $145,964,000, respectively.

Budgetary Highlights

Actual expenditures on a budgetary basis were approximately $767,000 for the fiscal year ended June 30, 2016, resulting in a variance between the final budget and actual expenditures on a budgetary basis of approximately $233,000.

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.

Hawaii Green Infrastructure Authority
STATEMENT OF NET POSITION
June 30, 2016

		Governmental Activities
ASSETS		
Current assets		
Cash and cash equivalents	$	1,840,252
Investments		142,828,433
Receivables		
Loan		10,098
Loan interest		1,979
		12,077
Total current assets		144,680,762
Non current assets		
Loan receivables, less current portion		373,762
Total noncurrent assets		373,762
Total assets	$	145,054,524
LIABILITIES AND NET POSITION		
Current liabilities		
Vouchers and contracts payable	$	15,074
Accrued wages and employee benefits payable		43,797
Accrued compensated absences		4,872
Total current liabilities		63,743
Noncurrent liabilities		
Accrued compensated absences, less current portion		1,170
Total noncurrent liabilities		1,170
Total liabilities		64,913
Net position		
Restricted for Hawaii green infrastructure		144,989,611
Total net position		144,989,611
Total liabilities and net position	$	145,054,524

See accompanying notes to the financial statements.

Hawaii Green Infrastructure Authority
STATEMENT OF ACTIVITIES
Fiscal Year Ended June 30, 2016

GOVERNMENTAL ACTIVITIES		
Expenses - Hawaii green infrastructure	$	1,071,656
Program revenues - charges for services		7,535
Net (expenses) revenues		(1,064,121)
GENERAL REVENUES		
Interest income		112,930
CHANGE IN NET POSITION		(951,191)
NET POSITION AT JULY 1, 2015		145,940,802
NET POSITION AT JUNE 30, 2016	$	144,989,611

See accompanying notes to the financial statements.

Hawaii Green Infrastructure Authority
BALANCE SHEET - GOVERNMENTAL FUND
June 30, 2016

		Special Revenue Fund
ASSETS		
Cash and cash equivalents	$	1,840,252
Investments		142,828,433
Receivables		
Loan		383,860
Loan interest		1,979
		385,839
Total assets	$	145,054,524
LIABILITIES AND FUND BALANCE		
Liabilities		
Vouchers and contracts payable	$	15,074
Accrued wages and employee benefits payable		43,797
Total liabilities		58,871
Fund balance		
Restricted for Hawaii green infrastructure		144,995,653
Total fund balance		144,995,653
Total liabilities and fund balance	$	145,054,524

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, 2016

Fund balance - governmental fund	$	144,995,653
Amounts reported for governmental activities in the statement of net position are different because:		
Accrued compensated absences are not due in the current period and therefore are not reported in the governmental fund		(6,042)
Net position of governmental activities	$	144,989,611

See accompanying notes to the financial statements.

Hawaii Green Infrastructure Authority
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE - GOVERNMENTAL FUND
Fiscal Year Ended June 30, 2016

	Special Revenue Fund
REVENUES	
Interest income from investments	$ 112,930
Interest income from loan program	7,390
Other revenue	145
	120,465
EXPENDITURES	
Hawaii green infrastructure	1,088,644
	1,088,644
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(968,179)
NET CHANGE IN FUND BALANCE	(968,179)
FUND BALANCE AT JULY 1, 2015	145,963,832
FUND BALANCE AT JUNE 30, 2016	$ 144,995,653

See accompanying notes to the financial statements.

Hawaii Green Infrastructure Authority
RECONCILIATION OF THE GOVERNMENTAL FUND
CHANGE IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
Fiscal Year Ended June 30, 2016

Net change in fund balance - total governmental fund	$ (968,179)
Amounts reported for governmental activities in the statement of activities are different because:	
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	16,988
Change in net position of governmental activities	$ (951,191)

See accompanying notes to the financial statements.

Hawaii Green Infrastructure Authority
STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) - SPECIAL REVENUE FUND
Fiscal Year Ended June 30, 2016

	Budgeted Amounts		Actual on Budgetary Basis	Variance Favorable (Unfavorable)
	Original	Final		
Revenues - interest income	$ --	$ 15,000	$ 14,990	$ (10)
Expenditures - Hawaii green infrastructure	1,000,000	1,000,000	766,914	233,086
Deficit of revenues under expenditures	$ (1,000,000)	$ (985,000)	$ (751,924)	$ 233,076

See accompanying notes to the financial statements.

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 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, 2016, and the changes in its financial position for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America. 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 accordance 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 reported using the 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. Program revenues include interest and fees charged to the borrowers of the Hawaii Green Infrastructure Loan Program.

Governmental Fund Financial Statements - The governmental fund financial statements are reported 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).

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

Encumbrance accounting is employed in the governmental fund. Under this method, purchase orders, contracts, and other commitments 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, Cash Equivalents, and Investments*** - Cash and cash equivalents consist of amounts held in the State Treasury and in a bank account 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.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

Unassigned - 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 Revenues and 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.

NOTE C - BUDGETING AND BUDGETARY CONTROL (Continued)

A reconciliation of the revenues under expenditures as shown on the Statement of Revenues and 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
Deficiency of revenues under expenditures - actual on a budgetary basis	$	(751,924)
Reserve for encumbrances at year end		287,232
Expenditures for liquidation of prior fiscal year encumbrances		(444,530)
Revenues and expenditures for unbudgeted programs, net		(33,000)
Net accrued expenditures		(25,957)
Deficiency of revenues under expenditures - GAAP basis	$	(968,179)

NOTE D - CASH, CASH EQUIVALENTS, AND INVESTMENTS

(1) ***Cash and Cash Equivalents***

The HGIA's cash balance is maintained in the State Treasury and in a bank account held separately from cash 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.

The cash balance in a bank which is held separately from cash in State Treasury is insured by the Federal Deposit Insurance Corporation (FDIC). The bank balance of cash held outside of the State Treasury totaled approximately $7,700 as of June 30, 2016.

NOTE D - CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

(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.

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 $142,828,000 and the weighted average maturity was less than one year as of June 30, 2016.

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 by Standard & Poor's as of June 30, 2016.

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.

NOTE D - CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

Investments held outside the State Treasury in a money market fund totaling approximately $142.8 million as of June 30, 2016, are measured at the net asset value. The fund seeks preservation of capital, daily liquidity and maximum income. There are no unfunded commitments as of June 30, 2016. Investment redemption may be made daily.

NOTE E - LONG-TERM LIABILITIES

The following is the changes in long-term liabilities for the fiscal year ended June 30, 2016:

	Accrued Compensated Absences
Balance at June 30, 2015	$ 23,030
Additions	11,837
Deductions	(28,825)
Balance at June 30, 2016	6,042
Less: current portion	4,872
Noncurrent portion	$ 1,170

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).

NOTE F - REVENUE BONDS (Continued)

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.

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

Generally, all full-time employees of the State and counties are required to be members of the ERS, a cost-sharing multiple-employer defined benefit pension plan that administers the State's pension benefits program. Benefits, eligibility, and contribution requirements are governed by HRS Chapter 88 and can be amended through legislation. The ERS issues publicly available annual financial reports that can be obtained at ERS' website: http://www.ers.ehawaii.gov.

Benefits Provided

The ERS Pension Trust is comprised of three pension classes for membership purposes and considered to be a single plan for accounting purposes since all assets of the ERS may legally be used to pay the benefits of any of the ERS members or beneficiaries. The ERS provides retirement, disability and death benefits with three membership classes known as the noncontributory, contributory and hybrid retirement classes. The three classes 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. Average final compensation for members hired prior to July 1, 2012 is an average of the highest salaries during any three years of credited service, excluding any salary paid in lieu of vacation for members 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 members hired prior to January 1, 1971. For members hired after June 30, 2012, average final compensation is an average of the highest salaries during any five years of credited service excluding any salary paid in lieu of vacation.

Each retiree's original retirement allowance is increased on each July 1 beginning the calendar year after retirement. Retirees first hired as members prior to July 1, 2012 receive a 2.5% increase each year of their original retirement allowance without a ceiling. Retirees first hired as members after June 30, 2012 receive a 1.5% increase each year of their original retirement allowance without a ceiling. The annual increase is not compounded.

NOTE G - RETIREMENT PLAN (Continued)

The following summarizes the provisions relevant to the largest employee groups of the respective membership class. Retirement benefits for certain groups, such as police officers, firefighters, some investigators, sewer workers, judges, and elected officials, vary from general employees.

Noncontributory Class

Retirement Benefits:
General employees' retirement benefits are determined as 1.25% of average final compensation multiplied by the years of credited service. Employees with ten 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.

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.

Ordinary death benefits are available to employees who were active at time of death with at least ten years of credited service. The surviving spouse/reciprocal beneficiary (until remarriage/reentry into a new reciprocal beneficiary relationship) and dependent children (up to age 18) receive a benefit equal to a percentage of the 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 and the dependent children receive a percentage of the member's accrued maximum allowance unreduced for age.

Contributory Class for Members 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 five years of credited service are eligible to retire at age 55.

NOTE G - RETIREMENT PLAN (Continued)

Police officers and firefighters' retirement benefits are determined using the benefit multiplier of 2.5% for qualified service, up to a maximum of 80% of average final compensation. Police officers and firefighters with five years of credited service are eligible to retire at age 55. Police officers and firefighters with 25 years of credited service are eligible to retire at any age, provided the last five years is service credited in these occupations.

<u>Disability Benefits:</u>
Members are eligible for service-related disability benefits regardless of length of service and receive a one-time payment of the member's contributions and accrued interest plus a lifetime pension of 50% of their average final compensation. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined as 1.75% of average final compensation multiplied by the years of credited service but are payable immediately, without an actuarial reduction, and at a minimum of 30% of average final compensation.

<u>Death Benefits:</u>
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.

Ordinary death benefits are available to employees who were active at time of death with at least one 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 ten 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 Class for Members Hired After June 30, 2012

<u>Retirement Benefits:</u>
General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with ten years of credited service are eligible to retire at age 60.

Police officers and firefighters' retirement benefits are determined using the benefit multiplier of 2.25% for qualified service, up to a maximum of 80% of average final

NOTE G - RETIREMENT PLAN (Continued)

compensation. Police officers and firefighters with ten years of credited service are eligible to retire at age 60. Police officers and firefighters with 25 years of credited service are eligible to retire at any age, provided the last five years is service credited in these occupations.

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% of average final compensation for each year of service for judges and elected officers and 1.75% of average final compensation for each year of service for police officers and firefighters and are payable immediately, without an actuarial reduction, at a minimum of 30% of average final compensation.

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

Hybrid Class for Members 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 five 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 designated 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 dependent 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 five 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%,

NOTE G - RETIREMENT PLAN (Continued)

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 ten 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 Class for Members 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 ten 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. Sewer workers, water safety officers, and emergency medical technicians may retire with 25 years of credited service at age 55.

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 ten years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest, 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 ten 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.

Contributions

Contributions are governed 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 2016 were 25.00% for police officers and firefighters and 17.00% for all other employees.

The HGIA's contribution requirement as of June 30, 2016 was approximately $50,000. 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 HGIA.

The employer is required to make all contributions for noncontributory members. Contributory members hired prior to July 1, 2012 are required to contribute 7.8% of their salary, except for police officers and firefighters who are required to contribute 12.2% of their salary. Contributory members hired after June 30, 2012 are required to contribute 9.8% of their salary, except for police officers and firefighters who are required to contribute 14.2% of their salary. Hybrid members hired prior to July 1, 2012 are required to contribute 6.0% of their salary. Hybrid members hired after June 30, 2012 are required to contribute 8.0% of their salary.

NOTE G - RETIREMENT PLAN (Continued)

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 $50,000 for the fiscal year ended June 30, 2016.

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

The State provides certain health care and life insurance benefits to all qualified employees. Pursuant to Act 88, SLH 2001, the State contributes to the EUTF, an agent multiple-employer defined benefit plan that replaced the Hawaii Public Employees Health Fund effective July 1, 2003. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees and their dependents. The EUTF issues an annual financial report that is available to the public. The report may be obtained by writing to the EUTF at P.O. Box 2121, Honolulu, Hawaii 96805-2121.

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

For employees hired after June 30, 1996 but before July 1, 2001, and who retire with less than ten 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 employees retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For 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.

For employees hired on or after July 1, 2001, and who retire with less than ten 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 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.

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

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 $27,300 and $16,000 for the fiscal years ended June 30, 2016 and 2015, respectively.

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.

NOTE J - COMMITMENTS AND CONTINGENCIES

Encumbrances

Encumbrances totaled approximately $287,000 as of June 30, 2016.

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, 2016 approximated $10,000.

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 ten 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 terrorism, which is $50,000,000 per occurrence and a $10,000 deductible.

Crime Insurance
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, except for claims expense coverage, which has a $100,000 limit per occurrence and a $1,000 deductible. Losses under the deductible amount are paid by the Risk Management Office of the Department of Accounting and General Services and losses not covered by insurance are paid from legislative appropriations of the State's General Fund.

General Liability (Including Torts)
Liability claims under $10,001 and automobile claims under $15,001 are handled by the Risk Management Office. 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 self-insured retention per occurrence. The annual aggregate per occurrence is $15,000,000 and for crime loss, $10,000,000 with no aggregate limit.

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 below $15,000 are administered by the Risk Management Office. 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, 2016.

PART II

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

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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 of the Hawaii Green Infrastructure Authority (the HGIA), as of and for the fiscal year ended June 30, 2016, 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 9, 2016.

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 our 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 from 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 9, 2016