

**STATE OF HAWAII
DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT
AND TOURISM
HAWAII GREEN INFRASTRUCTURE BOND FUND**

**FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
WITH INDEPENDENT AUDITOR'S REPORT**

Fiscal Year Ended June 30, 2019



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**STATE OF HAWAII
DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT AND TOURISM
HAWAII GREEN INFRASTRUCTURE BOND FUND**

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PART I
FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the State of Hawaii, Department of Business, Economic Development and Tourism, Hawaii Green Infrastructure Bond Fund (Bond Fund), which comprise the balance sheet - governmental fund as of June 30, 2019, and the related statement of revenues, expenditures, and changes in fund balance - governmental fund for the fiscal year then ended, and the related notes to the financial statements.

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 an opinion 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bond Fund as of June 30, 2019, 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.

Emphasis of Matter

As discussed in Note A, the financial statements present only the Bond Fund and do not purport to, and do not present fairly the financial position of the State of Hawaii or the State of Hawaii, Department of Business, Economic Development and Tourism as of June 30, 2019, or the respective 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 7 - 8 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the 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 Information

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Bond Fund. The accompanying schedule of cash receipts and cash disbursements and the schedule of reserve account balances are presented for purposes of additional analysis and are not a required part of the financial statements.

The schedule of cash receipts and cash disbursements and the schedule of reserve account balances are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of cash receipts and cash disbursements and the schedule of reserve account balances are fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2019 on our consideration of the Bond Fund'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Bond Fund's 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 Bond Fund's internal control over financial reporting and compliance.

N&K CPAs, Inc.

Honolulu, Hawaii
November 26, 2019

State of Hawaii
Department of Business, Economic Development and Tourism
Hawaii Green Infrastructure Bond Fund
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2019

The following is management's discussion and analysis of the financial activities and performance of the State of Hawaii, Hawaii Green Infrastructure Bond Fund (Bond Fund) during the fiscal year ended June 30, 2019. Please read it in conjunction with the Bond Fund's financial statements including the related notes to the financial statements.

Financial Highlights

The key fund financial highlights for the fiscal year ended June 30, 2019 are as follows:

- Green infrastructure fee revenue for the fiscal year was approximately \$13,834,000. This is a 3.7% or \$493,000 increase from approximately \$13,341,000 for the fiscal year ended June 30, 2018.
- Investments as of June 30, 2019 comprised 90% of the total assets amounting to approximately \$8,682,000, compared to 90% of the total assets amounting to approximately \$8,062,000 as of June 30, 2018.
- The Bond Fund's liabilities reported in the balance sheet as of June 30, 2019 was approximately \$6,695,000, an increase of approximately \$2,000 or 0% from approximately \$6,693,000 as of June 30, 2018.

Overview of the Financial Statements

A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The financial statements of the Bond Fund, a governmental debt service fund type, consist of (1) the balance sheet, (2) the statement of revenues, expenditures, and changes in fund balance and (3) the accompanying notes to the financial statements. This report also contains other supplementary information in addition to the financial statements.

- The balance sheet provides information about the Bond Fund's current financial resources at the end of the fiscal year.
- The statement of revenues, expenditures, and changes in fund balance presents information about the inflows, outflows, and balances of current financial resources over the fiscal year. For the debt service fund, payments of bond principal and bond interest are recognized as expenditures when due within several days after the balance sheet date. The payment dates for the Bond Fund are July 1 and January 1 of each year.

State of Hawaii
Department of Business, Economic Development and Tourism
Hawaii Green Infrastructure Bond Fund
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
June 30, 2019

The Bond Fund's financial 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.

Financial Analysis

As of June 30, 2019 and 2018, total assets exceeded liabilities and deferred inflow of resources resulting in a fund balance of approximately \$2,065,000 and \$1,446,000, respectively. A positive fund balance indicates that enough Green Infrastructure Fees have been collected to ensure payment of the debt service on the payment date.

The Bond Fund continues to operate as required by the bond documents. More detailed information about the Bond Fund's long-term debt is presented in Note E to the financial statements.

Request for Information

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of the Department of Business, Economic Development and Tourism, State of Hawaii, 250 South Hotel Street, Honolulu, Hawaii 96813.

State of Hawaii
Department of Business, Economic Development and Tourism
Hawaii Green Infrastructure Bond Fund
BALANCE SHEET - GOVERNMENTAL FUND
June 30, 2019

ASSETS

| | |
|--------------------------------------|---------------------|
| Investments | |
| General subaccount | \$ 7,901,977 |
| Debt service reserve subaccount | 758,542 |
| Surplus subaccount | <u>21,111</u> |
| | <u>8,681,630</u> |
| Green infrastructure fee receivables | <u>938,395</u> |
| Total assets | <u>\$ 9,620,025</u> |

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE

| | |
|--|---------------------|
| Liabilities | |
| Accrued liabilities | \$ 11,813 |
| Current maturities of debt | 4,893,925 |
| Current interest due on debt | 1,710,808 |
| Green infrastructure fee remittance excess payable | <u>78,610</u> |
| Total liabilities | <u>6,695,156</u> |
| Deferred inflows of resources | |
| Unavailable revenues | <u>859,784</u> |
| Fund balance | |
| Restricted for Hawaii green infrastructure bond | <u>2,065,085</u> |
| Total fund balance | <u>2,065,085</u> |
| Total liabilities, deferred inflows of resources, and fund balance | <u>\$ 9,620,025</u> |

See accompanying notes to the financial statements.

State of Hawaii
Department of Business, Economic Development and Tourism
Hawaii Green Infrastructure Bond Fund
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUND
Fiscal Year Ended June 30, 2019

REVENUES

| | |
|--------------------------------------|-------------------|
| Green infrastructure fees | \$ 13,834,337 |
| Interest and other investment income | <u>102,929</u> |
| Total revenues | <u>13,937,266</u> |

EXPENDITURES

| | |
|--|-------------------|
| Ongoing financing costs | |
| Rating agency fees | 50,750 |
| Department legal, consulting and accounting fees | 29,750 |
| Service provider accounting and wire fees | 26,965 |
| Trustee fees | <u>1,200</u> |
| Total ongoing financing costs | 108,665 |
| Debt service | |
| Principal | 9,752,215 |
| Interest | <u>3,457,251</u> |
| Total expenditures | <u>13,318,131</u> |

NET CHANGE IN FUND BALANCE 619,135

FUND BALANCE AT JULY 1, 2018 1,445,950

FUND BALANCE AT JUNE 30, 2019 \$ 2,065,085

See accompanying notes to the financial statements.

State of Hawaii
Department of Business, Economic Development and Tourism
Hawaii Green Infrastructure Bond Fund
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE A - FINANCIAL REPORTING ENTITY

The Hawaii Green Infrastructure Bond Fund (Bond Fund) was created by Act 211, Session Laws of Hawaii 2013. It is administered by the State of Hawaii, Department of Business, Economic Development and Tourism (DBEDT). The Bond Fund receives all proceeds of the Green Infrastructure Fee and all other proceeds of the Green Infrastructure Property. Funds are used to pay all principal and interest on bonds and ongoing financing costs of the Hawaii green infrastructure loan program administered by the Hawaii Green Infrastructure Authority.

The Bond Fund's financial statements are intended to present the financial position and changes in financial position of only that portion of the governmental fund type of the State of Hawaii (State) and the DBEDT that are attributable to the transactions of the Bond Fund. They do not purport to, and do not, present fairly the respective financial position of the State or the DBEDT as of June 30, 2019, or the respective 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 Bond Fund's financial activities.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Bond Fund 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 used in the preparation of such financial statements:

(1) *Measurement Focus and Basis of Accounting*

For financial reporting purposes, the Bond Fund is considered a debt service fund that is a governmental fund type. 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 net financial resources.

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 fiscal 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 fiscal year-end to liquidate liabilities existing at the end of the fiscal year.

State of Hawaii
Department of Business, Economic Development and Tourism
Hawaii Green Infrastructure Bond Fund
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Expenditures are generally recorded when a liability is incurred. However, debt service expenditures are recognized only when payment is due or in the debt service fund when due within several days after the balance sheet date and the resources for payment have been provided in the fund.

- (2) **Investments** - Investments are held in a money market fund and are reported at fair value.
- (3) **Fund Balance** - Fund balance is classified using a hierarchy based on the extent to which DBEDT 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 laws or regulations by 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 management 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 Bond Fund has only a restricted fund balance.

- (4) **Green Infrastructure Fees** - Fees are imposed on all electric utility customers of certain electric service companies based on projected collections to ensure the timely payment of principal and interest of the Green Energy Market Securitization Bonds and all related ongoing financing costs. Periodic true-up adjustments made for the differences between projected and actual collections are determined as needed and are reflected in subsequent collections. Fees are recognized as revenue when collected and deposited in a trust account.
- (5) **Bond Principal and Interest Payments** - Payment of principal and interest to the bondholders is recognized as an expenditure when due within several days after the balance sheet date, and the resources for payment have been provided in the fund.

State of Hawaii
Department of Business, Economic Development and Tourism
Hawaii Green Infrastructure Bond Fund
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- (6) **Deferred Inflows of Resources** - In addition to liabilities, the balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. The Bond Fund has only one type of item, which arises only under a modified accrual basis of accounting, which qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported on the balance sheet. The amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.
- (7) **Use of Estimates** - The preparation of the financial statements in accordance 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 expenditures during the reporting period. Actual results could differ from those estimates.
- (8) **Accounting changes** - GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, which was adopted during the fiscal year June 30, 2019, addresses financial reporting issues related to debt, including direct borrowings and direct placements. This statement requires disclosures to be made about debt, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

NOTE C - INVESTMENTS

The Bond Fund does not have an investment policy related to interest rate risk and credit risk.

- (1) **Interest Rate Risk** - As a practice, funds are invested in short-term, high-quality investments. Investments in a money market fund totaled \$8,681,630 and the weighted average maturity was less than one year as of June 30, 2019.
- (2) **Credit Risk** - All investments are held in a money market fund. As of June 30, 2019, the money market fund is rated AAA by Standard & Poor's.
- (3) **Custodial Credit Risk and Concentration of Credit Risk** - Because all investments are held in a money market fund, there is no custodial credit risk or concentration of credit risk.

State of Hawaii
Department of Business, Economic Development and Tourism
Hawaii Green Infrastructure Bond Fund
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE C - INVESTMENTS (Continued)

All investments, totaling approximately \$8.7 million as of June 30, 2019, are held in a money market fund that is measured at the net asset value. The fund pursues a high level of current income consistent with preservation of principal and liquidity. The fund normally invests in cash, U.S. Government Securities and/or repurchase agreements that are collateralized fully. There are no unfunded commitments as of June 30, 2019. The maximum redemption notice is five business days.

NOTE D - DEBT SERVICE RESERVE ACCOUNT

A portion of the fund balance is set aside for a debt service reserve as required by the bond indenture. The reserve amounted to approximately \$759,000 as of June 30, 2019.

NOTE E - GREEN INFRASTRUCTURE FEE AND GREEN INFRASTRUCTURE PROPERTY

In November 2014, the State of Hawaii, Department of Business, Economic Development and Tourism issued \$150 million in Green Energy Market Securitization Bonds, 2014 Series A (Taxable), hereinafter referred to as "Bonds", as follows:

| For the fiscal year ended June 30, 2019 Tranche | Principal Amount Offered | Expected Weighted Average Life (years) | Scheduled Final Payment Date | Final Maturity Date | No. of Scheduled Semi-Annual Principal Payments | Interest Rate |
|--|--------------------------------|--|------------------------------------|------------------------|---|------------------|
| A-1 | \$ 50,000,000 | 3.05 | July 1, 2020 | July 1, 2022 | 11 | 1.467% |
| A-2 | \$ 100,000,000 | 10.21 | January 1, 2029 | January 1, 2031 | 18 | 3.242% |

The State designated the Bonds as "Green Bonds" based on the intended use of the proceeds of the Bonds for the financing of environmentally beneficial projects.

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 nonbypassable fee on all electric service 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 is a charge upon the general fund of the State and the full faith and credit of the State pledged to payment of principal of or interest on the Bonds.

State of Hawaii
Department of Business, Economic Development and Tourism
Hawaii Green Infrastructure Bond Fund
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE E - GREEN INFRASTRUCTURE FEE AND GREEN INFRASTRUCTURE PROPERTY
(Continued)

The Green Infrastructure Fee is property of the State, and is collected by the Service Providers, as collection agents for the State, and is remitted daily to U.S. Bank National Association (the "Trustee"). The Green Infrastructure Fee is subject to mandatory adjustment, not less often than semi-annually, and more often as authorized to ensure that the estimated amount of Green Infrastructure Fee projected to be collected will be sufficient to pay the Bonds in accordance with their scheduled maturities, together with related ongoing financing costs. There is no cap on the size of the Green Infrastructure Fee per customer, which must be imposed and collected until the Bonds are paid in full.

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, 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 Green Infrastructure Fee for the fiscal year ended June 30, 2019, amounted to approximately \$13,834,300.

The Bonds are not subject to optional redemption prior to maturity.

In the event of default, the Trustee or bondholders of a majority in principal amount of bonds then outstanding may declare the unpaid principal balance of the bonds, together with accrued interest thereon, to be immediately due and payable. However, payment of principal upon an acceleration of the bonds will be made only as funds become available in the Collection Account, which balance is comprised of the Green Infrastructure Fee collected that have not been used for debt service payments and related ongoing financing costs. Because the true-up mechanism was not designed to respond to an acceleration of bonds, it is unlikely that aggregate payments to bondholders would be received on an accelerated basis following an acceleration of the bonds.

Debt service requirements to maturity for the Bond Fund are as follows:

| Payment Date | Principal | Interest | Total |
|----------------------|-----------------------|----------------------|-----------------------|
| 7/1/2019 | \$ 4,893,925 | \$ 1,710,808 | \$ 6,604,733 |
| 1/1/2020 | 4,929,822 | 1,674,911 | 6,604,733 |
| 7/1/2020 - 6/30/2021 | 9,990,986 | 3,218,480 | 13,209,466 |
| 7/1/2021 - 6/30/2022 | 10,295,694 | 2,913,772 | 13,209,466 |
| 7/1/2022 - 6/30/2023 | 10,632,185 | 2,577,281 | 13,209,466 |
| 7/1/2023 - 6/30/2024 | 10,979,675 | 2,229,791 | 13,209,466 |
| 7/1/2024 - 6/30/2029 | 60,521,449 | 5,525,880 | 66,047,329 |
| Total | \$ 112,243,736 | \$ 19,850,923 | \$ 132,094,659 |

SUPPLEMENTARY INFORMATION

State of Hawaii
Department of Business, Economic Development and Tourism
Hawaii Green Infrastructure Bond Fund
SCHEDULE OF CASH RECEIPTS AND CASH DISBURSEMENTS
Fiscal Year Ended June 30, 2019

| | | Collection Account | | | |
|--|--|---------------------|---------------------|--------------------|--------------------|
| | | Debt Service | | | |
| | | Total | General Subaccount | Reserve Subaccount | Surplus Subaccount |
| CASH RECEIPTS | | | | | |
| Green infrastructure fees | | \$ 13,834,337 | \$ 13,834,337 | \$ -- | \$ -- |
| Interest and other investment income | | 102,929 | 86,921 | 15,665 | 343 |
| Transfers from other accounts | | 12,161 | -- | -- | 12,161 |
| Total net cash receipts | | <u>13,949,427</u> | <u>13,921,258</u> | <u>15,665</u> | <u>12,504</u> |
| CASH DISBURSEMENTS | | | | | |
| Ongoing financing costs | | | | | |
| Rating agency fees | | 50,750 | 50,750 | -- | -- |
| Department legal, consulting and accounting fees | | 29,750 | 29,750 | -- | -- |
| Service provider accounting and wire fees | | 26,965 | 26,965 | -- | -- |
| Trustee fees | | 1,200 | 1,200 | -- | -- |
| Total ongoing financing costs | | <u>108,665</u> | <u>108,665</u> | <u>--</u> | <u>--</u> |
| Debt service payments | | 13,209,467 | 13,209,467 | -- | -- |
| Transfers to other accounts | | <u>12,161</u> | <u>--</u> | <u>12,161</u> | <u>--</u> |
| Total cash disbursements | | <u>13,330,293</u> | <u>13,318,132</u> | <u>12,161</u> | <u>--</u> |
| Excess of cash receipts over cash disbursements | | 619,134 | 603,126 | 3,504 | 12,504 |
| INVESTMENTS, JULY 1, 2018 | | <u>8,062,496</u> | <u>7,298,851</u> | <u>755,038</u> | <u>8,607</u> |
| INVESTMENTS, JUNE 30, 2019 | | <u>\$ 8,681,630</u> | <u>\$ 7,901,977</u> | <u>\$ 758,542</u> | <u>\$ 21,111</u> |

State of Hawaii
Department of Business, Economic Development and Tourism
Hawaii Green Infrastructure Bond Fund
SCHEDULE OF RESERVE ACCOUNT BALANCES
June 30, 2019

| | Amount |
|---|-------------------|
| Debt service reserve subaccount balance | \$ <u>758,543</u> |
| Initial bond principal amount | \$ 150,000,000 |
| Required debt service reserve subaccount percentage size | 0.5% |
| Required debt service reserve subaccount level | \$ <u>750,000</u> |
| Debt service reserve subaccount balance in excess of minimum requirement | \$ <u>8,543</u> |

PART II

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

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

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

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 State of Hawaii, Department of Business, Economic Development and Tourism, Hawaii Green Infrastructure Bond Fund (Bond Fund), which comprise the balance sheet - governmental fund as of June 30, 2019, and the related statement of revenues, expenditures, and changes in fund balance - governmental fund for the fiscal year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 26, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Bond Fund'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Bond Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Bond Fund'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 Bond Fund'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
November 26, 2019