



State of Hawaii

Agribusiness Development Corporation

(A Component Unit of the State of Hawaii)

Financial Statements

June 30, 2019

Submitted by
The Auditor
State of Hawaii



State of Hawaii
Agribusiness Development Corporation
(A Component Unit of the State of Hawaii)
Index
June 30, 2019

	Page(s)
Report of Independent Auditors	
Management’s Discussion and Analysis (Unaudited)	4–12
Financial Statements	
Statement of Net Position – Governmental Activities.....	13
Statement of Activities – Governmental Activities.....	14
Balance Sheet – Governmental Funds.....	15
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	16
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	17
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	18
Notes to Financial Statements.....	19–33
Required Supplementary Information Other Than Management’s Discussion and Analysis (Unaudited)	
Budgetary Comparison Schedule – General Fund	34
Budgetary Comparison Schedule – Agricultural Development Revolving Fund.....	35
Budgetary Comparison Schedule – Waiahole Water System Revolving Fund	36
Budgetary Comparison Schedule – Development and Research Revolving Fund	37
Notes to Required Supplementary Information	38–39
Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	
Schedule of Finding.....	42–45
Corrective Action Plan (Unaudited)	



Report of Independent Auditors

The Auditor
State of Hawaii

The Board of Directors
Agribusiness Development Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the State of Hawaii, Agribusiness Development Corporation (the "Corporation"), a component unit of the State of Hawaii, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, as listed in the index.

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.


Auditors' 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 of 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 auditors' 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 auditors consider 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

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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 on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Corporation as of June 30, 2019, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Corporation include only the governmental activities and each major fund of the Corporation, and are not intended to present fairly the financial position of the State of Hawaii as of June 30, 2019, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.


Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 12 and budgetary comparison schedules for the Corporation's General Fund, Agricultural Development Revolving Fund, Waiahole Water System Revolving Fund, and Development and Research Revolving Fund on pages 34 through 37 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 March 10, 2022 on our consideration of the Corporation'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 the effectiveness of the Corporation'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 Corporation's internal control over financial reporting and compliance.

Accuity LLP

Honolulu, Hawaii
March 10, 2022

State of Hawaii
Agribusiness Development Corporation
(A Component Unit of the State of Hawaii)
Management's Discussion and Analysis (Unaudited)
June 30, 2019

The management of the Agribusiness Development Corporation (the "Corporation") offers readers of the Corporation's financial statements this narrative overview and analysis of its financial activities for the year ended June 30, 2019. This document should be read in conjunction with the audited financial statements. All amounts presented in tables, unless otherwise indicated, are expressed in millions of dollars.

Introduction

The Corporation was established by the State Legislature effective July 1, 1994 in accordance with Act 264, Session Laws of Hawaii ("SLH") 1994.

The Corporation's mission is to acquire and manage, in partnership with farmers, ranchers and aquaculture groups, selected high-value lands, water systems, and infrastructure for commercial agricultural use and to direct research into areas that will lead to the development of new crops, markets, and lower production costs.

The Corporation is administratively attached to the State of Hawaii (the "State"), Department of Agriculture. The Corporation's Board of Directors consists of three ex-officio members and eight private citizens appointed by the Governor. The eight private citizens are selected on the basis of their knowledge, experience and proven expertise in small and large businesses within the agricultural industry, agricultural economics, finance, marketing and management. Of these eight private citizens, at least four of these eight private citizens must be from each of the four counties of Honolulu, Hawaii, Maui and Kauai, respectively; the remaining four citizens are appointed, at large. The Director of Business, Economic Development, and Tourism; the Chairperson of the Board of Agriculture; and the Chairperson of the Board of Land and Natural Resources, or their designated representatives, are ex-officio, voting members. Corporate action is generally taken by the affirmative vote of at least six members.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Corporation's basic financial statements. The Corporation's basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. These components are described below:

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Corporation's finances, in a manner similar to a private-sector business. The Statement of Net Position provides both short-term and long-term information about the Corporation's financial position, which assists in assessing the Corporation's economic condition at the end of the fiscal year. All of the

State of Hawaii
Agribusiness Development Corporation
(A Component Unit of the State of Hawaii)
Management's Discussion and Analysis (Unaudited)
June 30, 2019

current year revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The government-wide financial statements include two statements:

- The Statement of Net Position presents all of the Corporation's assets and deferred outflows of resources, less liabilities and deferred inflows of resources with the difference reported as "net position." Over time, increases and decreases in the Corporation's net position may serve as a useful indicator of the health of the financial position of the Corporation.
- The Statement of Activities presents information indicating how the Corporation's net position changed during the most recent fiscal year.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Corporation uses fund accounting to ensure and demonstrate compliance with legal requirements.

The fund financial statements provide more detailed information about the Corporation's status and operations. The financial activities of the Corporation are recorded in individual funds, each of which is deemed to be a separate accounting entity. Governmental Accounting Standards Board ("GASB") issued Statement No. 34, *Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments*, sets forth the minimum criteria for the determination of major funds. The Corporation only has major funds.

The Corporation only has governmental funds:

- Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental funds financial statements focus on near term inflows and outflows of spendable resources, as well as on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Corporation's short-term financing requirements.
- The focus of the governmental funds is narrower than that of the government-wide financial statements; therefore, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Corporation's near-term financing decisions.
- Both the governmental funds balance sheet and governmental funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities in the government-wide financial statements.

State of Hawaii

Agribusiness Development Corporation

(A Component Unit of the State of Hawaii)

Management's Discussion and Analysis (Unaudited)

June 30, 2019

- The Corporation adopts an annual appropriated budget for its General Fund and Revolving Revenue Funds. Budgetary comparison schedules are provided for the General Fund and each Revolving Revenue Fund to demonstrate compliance with this budget. The budgetary comparison schedules for the General Fund and each Revolving Revenue Fund are located in the required supplementary information.

The Corporation has five major governmental funds. Each major fund is presented in a separate column in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance. These funds are briefly described as follows:

- The General Fund accounts for the State's general fund revenues appropriated by the State Legislature to the Corporation and transfers for the use by the Corporation's other funds.
- The Agricultural Development Revolving Fund was established for the purpose of carrying out the statutory directives of the Corporation, and into which are recorded all revenues generated by and all expenses incurred for the activities of the Corporation in carrying out those duties.
- The Waiahole Water System Revolving Fund was established for the purpose of administering the Waiahole Water System ("WWS"), and into which are recorded all revenues generated by and all expenses incurred for the WWS, including the repayment of the reimbursable general obligation bond which financed the acquisition of the WWS.
- The Development and Research Revolving Fund was established for the purpose of being the depository for a portion of the agricultural development and food security special fund ("petroleum barrel tax") to supplement capital projects and improvement costs of the Corporation's assets, including the management thereof.
- The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital assets and facilities.

Notes to the Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and governmental fund financial statements. The notes to the financial statements follow the basic financial statements.

Required Supplementary Information Other Than Management's Discussion and Analysis

In addition to the basic financial statements and accompanying notes, this report presents a section of required supplementary information ("RSI") other than management's discussion and analysis which contain budget-to-actual schedules for the Corporation's General Fund, Agricultural Development Revolving Fund, Waiahole Water System Revolving Fund, and Development and Research Revolving Fund as well as accompanying notes, which are required for major governmental funds with legally adopted budgets.

State of Hawaii
Agribusiness Development Corporation
(A Component Unit of the State of Hawaii)
Management's Discussion and Analysis (Unaudited)
June 30, 2019

Government-Wide Financial Analysis

The Statement of Net Position presents all of the Corporation's assets less liabilities, with the difference reported as net position. Over time, changes in net position may serve as a useful indicator of the Corporation's financial condition. The Corporation's total net position increased by \$11.9 million (or 10.8%) between fiscal years 2019 and 2018 as the Corporation's program and general revenues were greater than expenses. A large portion of the Corporation's net position (66.2%) reflects its investment in capital assets such as land, buildings, infrastructure, equipment, and construction-in-progress. The Corporation uses these capital assets in its operations to provide arable lands to qualified farmers, ensure irrigation water is available to the Corporation's tenants, and that accessory facilities will be available to farmers who require washing, packing, processing, distributing and value-added processing. Although the Corporation's investment in its capital assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets cannot be used to liquidate these liabilities.

Summary Statements of Net Position
As of June 30, 2019 and 2018
(in millions)

	2019	2018	Increase (Decrease)
Assets			
Current and other assets	\$ 42.4	\$ 31.3	\$ 11.1
Capital assets, net	86.0	85.5	0.5
Total assets	\$ 128.4	\$ 116.8	\$ 11.6
Liabilities			
Long-term liabilities	\$ 5.1	\$ 5.3	\$ (.2)
Other liabilities	1.3	1.4	(0.1)
Total liabilities	6.4	6.7	(0.3)
Net position			
Net investment in capital assets	80.8	80.1	0.7
Restricted	41.2	30.0	11.2
Total net position	122.0	110.1	11.9
Total liabilities and net position	\$ 128.4	\$ 116.8	\$ 11.6

State of Hawaii
Agribusiness Development Corporation
(A Component Unit of the State of Hawaii)
Management's Discussion and Analysis (Unaudited)
June 30, 2019

Statement of Activities

The Statement of Activities presents information showing the Corporation's revenues and expenses during the fiscal year. Revenues and expenses are reported as soon as the underlying event occurs, regardless of the timing of the related cash flows. As such, the statement includes information for some items that will result in cash flows in future fiscal periods (e.g., uncollected lease payments).

Summary Statements of Activities
Years Ended June 30, 2019 and 2018
(in millions)

	2019	2018	Increase (Decrease)
Revenues			
Program revenues			
Charges for services	\$ 3.0	\$ 3.2	\$ (0.2)
General revenues			
State allotted appropriations, net of lapses	12.8	26.2	(13.4)
Total revenues	<u>15.8</u>	<u>29.4</u>	<u>(13.6)</u>
Expenses			
General support for agriculture	2.8	2.8	-
Agricultural water development and irrigation services	0.8	0.8	-
Capital outlay	0.3	-	0.3
Total expenses	<u>3.9</u>	<u>3.6</u>	<u>0.3</u>
Change in net position	11.9	25.8	(13.9)
Net position			
Beginning of year	110.1	84.3	25.8
End of year	<u>\$ 122.0</u>	<u>\$ 110.1</u>	<u>\$ 11.9</u>

As noted, net position increased by \$11.9 million from operations in fiscal year 2019 compared to an increase of \$25.8 million in fiscal year 2018. The fiscal year 2019 increase is primarily due to the Corporation's program and general revenues exceeding expenses. The Corporation's total revenues decreased by approximately \$13.6 million to \$15.8 million in fiscal year 2019 due to a decrease in State-allotted appropriations, net of lapses. Approximately 81% of the Corporation's total revenues came from State-allotted appropriations, net of lapses, and 19% came from charges for services.

State of Hawaii
Agribusiness Development Corporation
(A Component Unit of the State of Hawaii)
Management's Discussion and Analysis (Unaudited)
June 30, 2019

Governmental Funds

For the year ended June 30, 2019, the Corporation's governmental funds reported a combined increase in fund balance of \$11.2 million. The changes in fund balance for the governmental funds differ from the change in net position for governmental activities. The differences relate to certain financial resources and expenditures such as debt financing and capital outlays that are included in the changes in fund balances but are not reported as changes in net position.

Comparison of Balance Sheets
(in millions)

	Assets			Liabilities and Deferred Inflows of Resources			Fund Balances		
	2019	2018	Change	2019	2018	Change	2019	2018	Change
General Fund	\$ 0.7	\$ 0.1	\$ 0.6	\$ -	\$ -	\$ -	\$ 0.7	\$ 0.1	\$ 0.6
Capital Projects Fund	37.5	26.8	10.7	-	0.1	(0.1)	37.5	26.8	10.7
Agricultural Development Revolving Fund	1.8	1.9	(0.1)	0.9	0.9	-	0.8	0.9	(0.1)
Waiahole Water System Revolving Fund	1.7	2.0	(0.3)	0.1	0.2	(0.1)	1.6	1.9	(0.3)
Development and Research Revolving Fund	0.7	0.5	0.2	-	-	-	0.7	0.4	0.3
Total	\$ 42.4	\$ 31.3	\$ 11.1	\$ 1.0	\$ 1.2	\$ (0.2)	\$ 41.3	\$ 30.1	\$ 11.2

Comparison of Statements of Revenues, Expenditures and Changes in Fund Balances
(in millions)

	Revenues			Expenditures			Changes in Fund Balances		
	2019	2018	Change	2019	2018	Change	2019	2018	Change
General Fund	\$ 0.8	\$ 0.3	\$ 0.5	\$ 0.1	\$ 0.2	\$ (0.1)	\$ 0.7	\$ 0.1	\$ 0.6
Capital Projects Fund	11.5	25.4	(13.9)	0.8	24.6	(23.8)	10.7	0.8	9.9
Agricultural Development Revolving Fund	2.3	2.2	0.1	2.4	2.4	-	(0.1)	(0.2)	0.1
Waiahole Water System Revolving Fund	0.8	1.1	(0.3)	1.1	1.2	(0.1)	(0.3)	(0.1)	(0.2)
Development and Research Revolving Fund	0.5	0.5	-	0.3	0.2	0.1	0.2	0.3	(0.1)
Total	\$ 15.9	\$ 29.5	\$ (13.6)	\$ 4.7	\$ 28.6	\$ (23.9)	\$ 11.2	\$ 0.9	\$ 10.3

Overall, the assets for the Corporation increased by approximately \$11.1 million, liabilities and deferred inflows of resources decreased by approximately \$0.2 million, and fund balance increased by \$11.2 million.

Budgetary Highlights

In the fiscal year 2019, the General Fund received appropriations of approximately \$0.8 million. This amount was approximately \$0.2 million less than the budgeted amount and was expended according to the budget.

In the fiscal year 2019, actual expenditures for the Agricultural Development Revolving Fund were \$0.9 million less than budgeted expenditures primarily due to project reprioritization and/or redirection of human resources.

In the fiscal year 2019, actual expenditures for the Waiahole Water System Revolving Fund were \$0.3 million less than budgeted expenditures primarily due to cost mitigation measures and reserve planning.

State of Hawaii
Agribusiness Development Corporation
(A Component Unit of the State of Hawaii)
Management’s Discussion and Analysis (Unaudited)
June 30, 2019

In the fiscal year 2019, actual expenditures for the Development and Research Revolving Fund were \$0.2 million less than budgeted expenditures primarily due to project reprioritization and/or redirection of human resources.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2019, the Corporation’s capital assets amounted to approximately \$86.0 million (net of accumulated depreciation of approximately \$2.2 million), an increase of approximately \$0.5 million primarily due to a \$0.6 million increase in construction-in-progress offset by a \$0.1 million increase in accumulated depreciation.

	Capital Assets (in millions)		
	2019	2018	Change
Capital assets			
Land	\$ 81.3	\$ 81.3	\$ -
Building and improvements	2.9	2.9	-
Equipment	0.6	0.6	-
Construction in progress	3.4	2.8	0.6
Total capital assets	<u>88.2</u>	<u>87.6</u>	<u>0.6</u>
Less: Accumulated depreciation	<u>(2.2)</u>	<u>(2.1)</u>	<u>(0.1)</u>
Total capital assets, net	<u>\$ 86.0</u>	<u>\$ 85.5</u>	<u>\$ 0.5</u>

Debt Administration

As of June 30, 2019, the Corporation had total debt outstanding of approximately \$5.2 million backed by the full faith and credit of the State. Repayment of the bond debt is made to the State of Hawaii General Fund.

	Long-Term Debt (in millions)		
	2019	2018	Change
General obligation bonds	\$ 5.2	\$ 5.4	\$ (0.2)
Total long-term debt	<u>\$ 5.2</u>	<u>\$ 5.4</u>	<u>\$ (0.2)</u>

State of Hawaii
Agribusiness Development Corporation
(A Component Unit of the State of Hawaii)
Management's Discussion and Analysis (Unaudited)
June 30, 2019

Currently Known Facts, Decisions or Conditions

In March 2020, the World Health Organization declared the outbreak of COVID-19 as a pandemic which remains a rapidly evolving situation. The extent of the impact of COVID-19 on the Corporation's financial position and results of operations will depend on future developments. While the Corporation continues to design and execute plans to mitigate these risks, the duration of the disruption and its overall financial impact is expected to be substantial but cannot be reasonably estimated at this time.

The Corporation continues to work on acquiring additional acres of land to convert to productive diversified agriculture status and develop facilities and infrastructure to accommodate agriculture activities. Currently, the Corporation is pursuing the acquisition of ground wells as a component of its Central Oahu Water Security Plan but is not actively negotiating any imminent vacant land acquisitions, electing instead on completing development of its current projects.

The Corporation provides long-term licenses, leases, and permits for agricultural operations and production. Currently, the Corporation has issued licenses and other land dispositions to agriculture operations for long-term use of 10,674 acres which represents 70% of its total usable inventory. An additional 1,057 acres were approved by the Corporation's Board of Directors in September 2021, followed by an additional 91 acres in November 2021, raising the total occupied lands to 11,822 acres, representing 78% of the Corporation's total usable inventory. The Corporation continues to accept, review and issue new long-term licenses, leases and permits.

The Corporation continues to work on capital improvement projects, specifically, the Christian Crossing Bridge Improvement Project and the Kekaha Bridge Improvement Project.

The purpose of the Christian Crossing Bridge Improvement Project is to repair and strengthen the existing crossing and supporting structures. The improvements include reinforcing the existing crossing and abutments that have been damaged by heavy flooding. The Christian Crossing Bridge provides the only access for standard trucks to Kalepa Units E to N. Without the bridge, trucks will not be able to access Kalepa Units E to N to pick up crops/animals or deliver farm supplies. Kalepa Units E to N are actively farmed for timber and biomass, truck crops, fruit and cattle. The Christian Crossing Bridge also provides the only emergency access to Kauai's North Shore should the Mayor Bryan J. Baptiste Memorial Bridge in Wailua fail or become impassable due to a tsunami, hurricane, or other catastrophic event. The Corporation continues to use the State appropriated funds to facilitate the completion of the Christian Crossing Bridge Improvement Project.

The purpose of the Kekaha Bridge Improvement Project is to repair and strengthen the existing structure. The Corporation seeks to plan, design and obtain the permitting for the improvement of the Kekaha Bridge. The work includes studying the integrity of the structures and developing the scope of work to improve the crossings. The improvements include reinforcing the existing crossings and abutments, removing and replacing damaged concrete, cracks, voids and cavities, resurfacing the road and approaches, and restoring the crossings and supporting structures to the required specifications. These improvements will ensure the bridge crossings can support equipment, standard trucks, and heavy machinery used by the agricultural operations on the Mana plains. The Corporation continues

State of Hawaii
Agribusiness Development Corporation
(A Component Unit of the State of Hawaii)
Management's Discussion and Analysis (Unaudited)
June 30, 2019

to use the State-appropriated funds to facilitate the completion of the Kekaha Bridge Improvement Project.

On September 27, 2021, a brushfire broke out in Whitmore on lands acquired by the Corporation. The fire effectively cleared much of the overgrowth, which uncovered contaminants and solid waste. The Corporation is currently working with the State Department of Health and is negotiating a contract to retain an environmental engineer to conduct an environmental site assessment report and develop a solid waste removal work plan. The environmental engineer has advised the Corporation that it will not be able to determine whether the identified decision units of contamination existed prior to June 30, 2019. While the Corporation cannot reasonably estimate the cost of necessary remediation activities at this time, it is reasonably possible that the cost of such activities will have a material adverse impact on the Corporation's financial position.

Requests for Information

This report is designed to provide an overview of the Corporation's finances. Questions concerning any of the information found in this report or requests for additional information should be directed to the Senior Executive Assistant, Agribusiness Development Corporation, 235 South Beretania Street, Suite 205, Honolulu, Hawaii 96813.

State of Hawaii
Agribusiness Development Corporation
(A Component Unit of the State of Hawaii)
Statement of Net Position – Governmental Activities
June 30, 2019

Assets

Equity in cash and cash equivalents and investments in State Treasury	\$ 41,958,038
Accounts receivable, net	447,143
Capital assets, net	<u>85,982,125</u>
Total assets	<u>\$ 128,387,306</u>

Liabilities

Vouchers payable	\$ 63,451
Accrued payroll	91,602
Interest payable	38,747
Unearned revenue	56,294
Due to OHA	326,365
Due to other State agencies	232,621
Deposits	151,316
Accrued vacation	
Due within one year	60,118
Due in more than one year	210,372
Bonds payable	
Due within one year	267,052
Due in more than one year	<u>4,899,366</u>
Total liabilities	<u>6,397,304</u>

Net position

Net investment in capital assets	80,810,673
Restricted	<u>41,179,329</u>
Total net position	<u>121,990,002</u>
Total liabilities and net position	<u>\$ 128,387,306</u>

The accompanying notes are an integral part of the financial statements.

State of Hawaii
Agribusiness Development Corporation
(A Component Unit of the State of Hawaii)
Statement of Activities – Governmental Activities
Year Ended June 30, 2019

	Expenses	Program Revenues <u>Charges</u> For Services	Net Revenue (Expense) and Changes in Net Assets Governmental Activities
Functions/Programs			
Governmental activities			
General support for agriculture	\$ 2,831,464	\$ 2,147,442	\$ (684,022)
Agricultural water development and irrigation services	762,994	847,325	84,331
Capital outlay	291,092	-	(291,092)
Total governmental activities	<u>\$ 3,885,550</u>	<u>\$ 2,994,767</u>	<u>(890,783)</u>
General revenues			
State allotted appropriations, net of lapsed appropriations			12,746,269
Interest income			31,793
Non-imposed employee fringe benefit			8,545
Total general revenues			<u>12,786,607</u>
Change in net position			11,895,824
Net position			
Beginning of year			<u>110,094,178</u>
End of year			<u>\$ 121,990,002</u>

The accompanying notes are an integral part of the financial statements.

State of Hawaii
Agribusiness Development Corporation
(A Component Unit of the State of Hawaii)
Balance Sheet – Governmental Funds
June 30, 2019

	General Fund	Agricultural Development Revolving Fund	Waiahole Water System Revolving Fund	Development and Research Revolving Fund	Capital Projects Fund	Total Governmental Funds
Assets						
Equity in cash and cash equivalents and investments in State Treasury	\$ 751,447	\$ 1,524,363	\$ 1,532,433	\$ 658,861	\$ 37,490,934	\$ 41,958,038
Accounts receivable, net	-	232,812	214,331	-	-	447,143
Total assets	<u>\$ 751,447</u>	<u>\$ 1,757,175</u>	<u>\$ 1,746,764</u>	<u>\$ 658,861</u>	<u>\$ 37,490,934</u>	<u>\$ 42,405,181</u>
Liabilities, Deferred Inflows of Resources and Fund Balances						
Liabilities						
Vouchers payable	\$ -	\$ 48,968	\$ 8,132	\$ 1,317	\$ 5,034	\$ 63,451
Accrued payroll	-	51,038	40,564	-	-	91,602
Unearned revenue	-	56,294	-	-	-	56,294
Due to OHA	-	326,365	-	-	-	326,365
Due to other State agencies	-	232,621	-	-	-	232,621
Deposits	-	151,316	-	-	-	151,316
Total liabilities	<u>-</u>	<u>866,602</u>	<u>48,696</u>	<u>1,317</u>	<u>5,034</u>	<u>921,649</u>
Deferred inflows of resources						
Unavailable revenue	-	64,466	81,332	-	-	145,798
Total deferred inflows of resources	<u>-</u>	<u>64,466</u>	<u>81,332</u>	<u>-</u>	<u>-</u>	<u>145,798</u>
Fund balances						
Committed	-	826,107	1,616,736	657,544	37,485,900	40,586,287
Assigned	751,447	-	-	-	-	751,447
Total fund balances	<u>751,447</u>	<u>826,107</u>	<u>1,616,736</u>	<u>657,544</u>	<u>37,485,900</u>	<u>41,337,734</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 751,447</u>	<u>\$ 1,757,175</u>	<u>\$ 1,746,764</u>	<u>\$ 658,861</u>	<u>\$ 37,490,934</u>	<u>\$ 42,405,181</u>

The accompanying notes are an integral part of the financial statements.

State of Hawaii
Agribusiness Development Corporation
(A Component Unit of the State of Hawaii)
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
June 30, 2019

Total governmental fund balances	\$ 41,337,734
Amounts reported for governmental activities in the statement of net assets are different because	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	85,982,125
Some liabilities are not due and payable in the current period and therefore not reported in the funds, including	
Accrued vacation	(270,490)
Bonds payable	(5,166,418)
Interest payable	(38,747)
Some revenues will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the governmental funds balance sheet.	<u>145,798</u>
Net position of governmental activities	<u>\$ 121,990,002</u>

The accompanying notes are an integral part of the financial statements.

State of Hawaii

Agribusiness Development Corporation

(A Component Unit of the State of Hawaii)

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds

Year Ended June 30, 2019

	General Fund	Agricultural Development Revolving Fund	Waiahole Water System Revolving Fund	Development and Research Revolving Fund	Capital Projects Fund	Total Governmental Funds
Revenues						
Allotted appropriations, net of lapsed appropriations	\$ 770,603	\$ -	\$ -	\$ 500,000	\$ 11,475,666	\$ 12,746,269
Intergovernmental revenues	-	80,742	-	-	-	80,742
Non-imposed employee fringe benefit	-	5,587	2,958	-	-	8,545
Charges for services	-	2,214,550	813,843	-	-	3,028,393
Interest	-	10,226	16,932	4,635	-	31,793
Total revenues	770,603	2,311,105	833,733	504,635	11,475,666	15,895,742
Expenditures						
Current						
General support for agriculture	123,396	2,423,978	-	295,163	-	2,842,537
Agricultural water development and irrigation services	-	-	1,087,293	-	-	1,087,293
Capital outlay	-	-	-	-	740,102	740,102
Total expenditures	123,396	2,423,978	1,087,293	295,163	740,102	4,669,932
Net change in fund balances	647,207	(112,873)	(253,560)	209,472	10,735,564	11,225,810
Fund balances						
Beginning of year	104,240	938,980	1,870,296	448,072	26,750,336	30,111,924
End of year	\$ 751,447	\$ 826,107	\$ 1,616,736	\$ 657,544	\$ 37,485,900	\$ 41,337,734

The accompanying notes are an integral part of the financial statements.

State of Hawaii

Agribusiness Development Corporation

(A Component Unit of the State of Hawaii)

**Reconciliation of the Governmental Funds Statement of Revenues, Expenditures,
and Changes in Fund Balances to the Statement of Activities
Year Ended June 30, 2019**

Net change in fund balances – governmental funds	\$ 11,225,810
Amounts reported for governmental activities in the statement of activities are different because	
Capital outlays are reported as expenditures in governmental funds, however, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. Excess of capital outlay over depreciation expense.	449,010
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(33,626)
The net increase in accrued vacation is reported in the statement of activities and does not require the use of current financial resources and therefore is not reported as an expenditure in the funds.	(6,265)
Repayment of bond principal is recorded as an expenditure in governmental funds, but the repayment reduces bonds payable in the statement of activities.	258,953
The net change in accrued interest payable is reported in the statement of activities and does not require the use of current financial resources and therefore is not reported as an expenditure in the funds.	<u>1,942</u>
Change in net position of governmental activities	<u>\$ 11,895,824</u>

The accompanying notes are an integral part of the financial statements.

State of Hawaii
Agribusiness Development Corporation
(A Component Unit of the State of Hawaii)
Notes to Financial Statements
June 30, 2019

1. Organization and Summary of Significant Accounting Policies

Financial Reporting Entity

The Agribusiness Development Corporation (the "Corporation") is a state agency established by Act 264, Session Laws of Hawaii ("SLH") 1994, and is placed within the State of Hawaii ("State") Department of Agriculture (the "Department") for administrative purposes.

The Corporation's mission is to acquire and manage, in partnership with farmers, ranchers and aquaculture groups, selected arable, water systems, and infrastructure for commercial agricultural use and to direct research into areas that will lead to the development of new crops, markets, and lower production costs. The Corporation's role is to protect the future of agriculture in the State by facilitating its transformation from a dual crop economy of sugar and pineapple to a multi-crop industry. The breadth of the Corporation's responsibilities includes transitioning former plantation lands and water systems to diversified long-term agricultural use, initiating and developing diversified agriculture facilities, and finding innovative solutions for issues facing the agricultural industry today. The Corporation fosters the growth of agricultural enterprises across the state by providing affordable irrigation and long-term licenses or leases to tenants, which stimulates investment in agribusiness and enhances the viability of agriculture in the state.

The Corporation's Board of Directors consists of three ex-officio members and eight private citizens appointed by the Governor. The eight private citizens are selected on the basis of their knowledge, experience and proven expertise in small and large businesses within the agricultural industry, agricultural economics, finance, marketing and management. Of these eight private citizens, at least four of these eight private citizens must be from each of the four counties of Honolulu, Hawaii, Maui and Kauai, respectively; the remaining four citizens are appointed, at large. The Director of Business, Economic Development, and Tourism; the Chairperson of the Board of Agriculture; and the Chairperson of the Board of Land and Natural Resources, or their designated representatives, are ex-officio, voting members. Corporate action is generally taken by the affirmative vote of at least six members.

Basis of Presentation

The accompanying financial statements of the Corporation have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") for state and local governments as prescribed by the Governmental Accounting Standards Board ("GASB").

Government-Wide and Fund Financial Statements

The government-wide financial statements (the statement of net position and the statement of activities) report information on the activities of the Corporation. For the most part, the effect of interfund activity has been removed from these government-wide statements.

State of Hawaii
Agribusiness Development Corporation
(A Component Unit of the State of Hawaii)
Notes to Financial Statements
June 30, 2019

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to customers who purchase, use or directly benefit from goods or services provided by a given function. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

The Corporation uses funds to report on its financial position and the results of its operations in its fund financial statements. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain functions or activities.

Net position is restricted when determined by a formal action of the State Legislature.

The financial activities of the Corporation are recorded in individual funds, each of which is deemed to be a separate accounting entity. The Corporation uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental Funds Financial Statements

The governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Corporation considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Principal revenue sources considered susceptible to accrual include lease payments and water sales.

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

State of Hawaii
Agribusiness Development Corporation
(A Component Unit of the State of Hawaii)
Notes to Financial Statements
June 30, 2019

Governmental Funds

The financial activities of the Corporation that are reported in the accompanying governmental fund financial statements have been classified into the following major governmental funds:

- **General Fund** – This fund is the Corporation’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- **Agricultural Development Revolving Fund** – This fund is used to account for functions related to support the development, promotion and marketing of export crops.
- **Waiahole Water System Revolving Fund** – This fund is used to account for the acquisition, planning, design, improvement, construction, equipping, furnishing, administering, operating and maintaining of the Waiahole Water System.
- **Development and Research Revolving Fund** – This fund is used to account for functions related to support the development, promotion and marketing of export crops.
- **Capital Projects Fund** – This fund accounts for substantially all of the financial resources obtained and used for the acquisition or construction of the Corporation’s capital assets and facilities, as well as the financial resources obtained and used for the payment of principal and interest on long-term bond obligations. Such resources are derived principally from proceeds of general obligation bond issues, appropriations from the State, and transfers from the Revolving Revenue Funds.

Appropriations

An authorization granted by the State Legislature permitting a State agency, within established fiscal and budgetary controls, to incur obligations and to make expenditures. Appropriations are allotted quarterly. The allotted appropriations generally lapse if not expended or encumbered at the end of the fiscal year, except for allotted appropriations related to capital projects.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the governmental fund types.

Equity in Cash and Cash Equivalents and Investments in State Treasury

The State Director of Finance is responsible for the safekeeping of cash and investments in the State Treasury in accordance with State laws. The Director of Finance may invest any monies of the State which, in the Director’s judgment, are in excess of the amounts necessary for meeting the immediate requirements of the State. Cash is pooled with funds from other State agencies and departments and deposited into approved financial institutions or in the State Treasury Investment Pool. Funds in the investment pool accrue interest based on the average weighted cash balances of each account.

State of Hawaii
Agribusiness Development Corporation
(A Component Unit of the State of Hawaii)
Notes to Financial Statements
June 30, 2019

The State requires that depository banks pledge as collateral, government securities held in the name of the State for deposits not covered by federal deposit insurance.

GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, requires disclosures over common deposit and investment risks related to credit risk, interest rate risk, and foreign currency risk. Investments can be categorized by type, maturity and custodian to determine the level of interest rate, credit and custodial risk assumed by an entity. However, as all of the Corporation's monies are held in the State cash pool, the Corporation does not manage its own investments and the types of investments and related interest rate, credit, and custodial risks are not determinable at the department level. The risk disclosures of the State's cash pool are included in the State's Annual Comprehensive Financial Report ("ACFR") for the year ended June 30, 2019. The State's ACFR can be found at the Department of Accounting and General Services' ("DAGS") website: <https://ags.hawaii.gov/accounting/annual-financial-reports/>.

Investments held in the State Treasury are reported at fair value within the fair value hierarchy established by GAAP. For more information on investment fair values, refer to the State's ACFR.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivables are initially recorded at the amount invoiced or otherwise due and normally do not bear interest. The Corporation maintains an allowance for doubtful accounts to reduce receivables to their estimated collectible amount. Management estimates the allowance for uncollectible receivables based on a specific review of customer balances, the overall aging of outstanding balances, historical collection experience, and current business and economic conditions. Delinquent accounts in excess of two years are written off upon approval of the State Department of the Attorney General and when, in the judgment of management, they are deemed uncollectible based on an evaluation of the specific circumstances.

Capital Assets

Capital assets, which include land, buildings, improvements, equipment and infrastructure assets, are reported in the government-wide financial statements. The capitalization thresholds are \$5,000 for equipment, and \$100,000 for infrastructure and buildings and improvements with estimated useful lives of greater than one year. Maintenance and repairs are charged to operations when incurred. Purchased and constructed capital assets are valued at historical cost or estimated historical cost. Donated assets are recorded at their fair value at the date of donation.

Capital assets are depreciated on the straight-line method over the assets' estimated useful lives as follows:

Machinery and equipment	5 – 7 years
Vehicles	5 years
Buildings and improvements	15 – 40 years
Infrastructure	15 – 30 years

State of Hawaii
Agribusiness Development Corporation
(A Component Unit of the State of Hawaii)
Notes to Financial Statements
June 30, 2019

Compensated Absences

It is the State's policy to permit employees to accumulate earned but unused vacation and sick leave benefits. There is no liability for unpaid accumulated sick leave since sick leave is not convertible to pay upon termination of employment. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Bonds Payable

In the government-wide financial statements, long-term debts are reported as liabilities in the statement of net position. Initial-issue bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective-interest method. The difference between the reacquisition price of refunding bonds and the net carrying amount of refunded debt (deferred amount on refunding) is amortized over the shorter of the life of the refunding debt or the remaining life of the refunded debt. Bonds payable are reported net of the unamortized portion of applicable premium, discount, or deferred amount on refunding. Bond issuance costs, including underwriters' discount, are reported as deferred bond issuance costs. Amortization of bond premiums or discounts, issuance costs, and deferred amounts on refunding is included in interest expense.

In the fund financial statements, governmental funds recognize bond premiums, discounts, and issuance costs during the period issued. The face amount of debt issued is reported as other financing sources. Premiums received are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Due to OHA

This account consists of outstanding transfers due to the Office of Hawaiian Affairs ("OHA"), pursuant to Section 5 of Act 178, SLH 2006.

Due to Other State Agencies

This account consists of outstanding transfers due to the Department of Hawaiian Home Lands ("DHHL") under the Hawaiian Homes Commission Act.

Unearned Revenue

Unearned revenues arise when resources are received by the Corporation before it has a legal claim to them, as when rent receipts are received in advance of the corresponding rental periods. The Corporation also records unearned revenues when tenants provide agreed upon services in exchange for rental credits. In subsequent periods, when both recognition criteria are met or when the Corporation has a legal claim to the resources, the liability for unearned revenue is removed and revenue is recognized.

State of Hawaii
Agribusiness Development Corporation
(A Component Unit of the State of Hawaii)
Notes to Financial Statements
June 30, 2019

Deferred Inflows of Resources

Deferred inflows of resources represent a benefit to net position that applies to a future period. The Corporation has one type which arises only under the modified accrual basis of accounting and is only on the governmental funds balance sheet. Program revenues not collected within 60 days of year-end are deferred and recognized as an inflow of resources in the period that the amounts become available.

Net Position and Fund Balance

In the government-wide financial statements, net position is reported as either net investment in capital assets or restricted net position. Net investment in capital assets represents the Corporation's investment in capital assets, less related indebtedness outstanding to acquire those capital assets. Restricted net position represents net position restricted by parties outside of the Corporation or imposed by law through enabling legislation.

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

The Corporation classifies fund balance based primarily on the extent to which a government is bound to follow constraints on how resources can be spent in accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Classifications include:

- **Nonspendable** – Amounts that cannot be spent because they are either in nonspendable form or they are legally or contractually required to be maintained intact.
- **Restricted** – Amounts that are restricted for specific purposes due to constitutional provisions or enabling legislation or constraints that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments.
- **Committed** – Amounts that can be used only for specific purposes determined by a formal action of the State Legislature. The State Legislature is the highest level of decision-making authority of the Corporation. Commitments may be established, modified or rescinded only through formal acts by the State Legislature.
- **Assigned** – Amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the Corporation's adopted policy, only the Corporation may assign amounts for specific purposes.
- **Unassigned** – All other spendable amounts.

State of Hawaii
Agribusiness Development Corporation
(A Component Unit of the State of Hawaii)
Notes to Financial Statements
June 30, 2019

Use of Estimates

In preparing financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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.

New Accounting Pronouncements

GASB Statement No. 83

During fiscal year 2019, the Corporation implemented GASB Statement No. 83, *Certain Asset Retirement Obligations*. The objective of this Statement is to address accounting and financial reporting for certain asset retirement obligations related to tangible capital assets. This Statement requires recognition of a liability for legal obligations to perform asset retirement activities related to tangible capital assets. This Statement did not have any effect on the Corporation's financial statements.

GASB Statement No. 84

The GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018, postponed by GASB Statement No. 95 for one year. The Corporation does not expect this Statement will have a material effect on its financial statements.

GASB Statement No. 87

The GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The Statement requires recognition of certain lease assets and liabilities for leases that are currently classified as operating leases and recognized as inflows of resources or outflows of resources based on the provisions of the contract. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019, postponed by GASB Statement No. 95 for eighteen months. The Corporation has not yet determined the effect this Statement will have on its financial statements.

GASB Statement No. 88

During fiscal year 2019, the Corporation implemented GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The Statement did not have any effect on the Corporation's financial statements.

State of Hawaii
Agribusiness Development Corporation
(A Component Unit of the State of Hawaii)
Notes to Financial Statements
June 30, 2019

GASB Statement No. 89

During fiscal year 2019, the Corporation early implemented GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This Statement replaces paragraph 5-22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The Statement did not have any effect on the Corporation's financial statements.

GASB Statement No. 90

The GASB issued Statement No. 90, *Majority Equity Interest – an amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improve the relevance of financial statement information for certain component units. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018, postponed by GASB Statement No. 95 for one year. The Corporation does not expect this Statement will have a material effect on its financial statements.

GASB Statement No. 91

During fiscal year 2019, the Corporation early implemented GASB Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with commitments extended by issuers, arrangements associated with conduit debt obligations, and related note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020, postponed by GASB Statement No. 95 for one year. The Statement did not have any effect on the Corporation's financial statements.

GASB Statement No. 92

The GASB issued Statement No. 92, *Omnibus 2020*. The primary objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The requirements of this Statement are effective at multiple periods depending on when certain Statements are implemented, postponed by GASB Statement No. 95 for one year. The Corporation has not determined the effect this Statement will have on its financial statements.

GASB Statement No. 93

The GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The primary objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of interbank offered rates. The removal of the London Interbank Offered Rate as an appropriate benchmark interest rate is effective for

State of Hawaii
Agribusiness Development Corporation
(A Component Unit of the State of Hawaii)
Notes to Financial Statements
June 30, 2019

reporting periods ending after December 31, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020, postponed by GASB Statement No. 95 for one year. The Corporation has not determined the effect this Statement will have on its financial statements.

GASB Statement No. 94

The GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2022. The Corporation has not determined the effect this Statement will have on its financial statements.

GASB Statement No. 95

The Corporation implemented GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018 and later. The requirements of this Statement are effective immediately.

GASB Statement No. 96

The GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements for government end users. The requirements of this Statement are effective for reporting periods beginning after June 15, 2022. The Corporation has not determined the effect this Statement will have on its financial statements.

GASB Statement No. 97

The GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The main objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution OPEB plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency and comparability of the accounting and financial reporting for Internal Revenue Code Section 457 deferred compensation plans that meet the definition of a pension plan and for benefits provided through those plans. Certain requirements of this Statement

State of Hawaii
Agribusiness Development Corporation
(A Component Unit of the State of Hawaii)
Notes to Financial Statements
June 30, 2019

are effective immediately while other requirements, like reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. The Corporation has not determined the effect this Statement will have on its financial statements.

2. Accounts Receivable

At June 30, 2019, accounts receivable consisted of the following:

Sale of services	\$ 248,242
Waiahole water system	284,021
Leases of public land	60,658
Total receivable	<u>592,921</u>
Less: Allowance for doubtful accounts	<u>145,778</u>
Net receivable	<u>\$ 447,143</u>

3. Capital Assets

The changes to capital assets for the year ended June 30, 2019 are as follows:

	Balance July 1, 2018	Additions	Disposals and Transfers	Balance June 30, 2019
Capital assets being depreciated				
Land improvements	\$ 1,106,514	\$ -	\$ -	\$ 1,106,514
Buildings	1,839,537	-	-	1,839,537
Vehicles and equipment	602,063	-	-	602,063
	<u>3,548,114</u>	<u>-</u>	<u>-</u>	<u>3,548,114</u>
Less: Accumulated depreciation				
Land improvements	1,106,514	-	-	1,106,514
Buildings	591,388	60,186	-	651,574
Vehicles and equipment	396,041	44,572	-	440,613
	<u>2,093,943</u>	<u>104,758</u>	<u>-</u>	<u>2,198,701</u>
Subtotal	<u>1,454,171</u>	<u>(104,758)</u>	<u>-</u>	<u>1,349,413</u>
Capital assets not being depreciated				
Land	81,279,054	-	-	81,279,054
Construction in progress	2,799,892	553,766	-	3,353,658
Subtotal	<u>84,078,946</u>	<u>553,766</u>	<u>-</u>	<u>84,632,712</u>
Capital assets, net	<u>\$ 85,533,117</u>	<u>\$ 449,008</u>	<u>\$ -</u>	<u>\$ 85,982,125</u>

Depreciation expense for the year ended June 30, 2019 charged to the general support for agriculture approximated \$105,000.

State of Hawaii
Agribusiness Development Corporation
(A Component Unit of the State of Hawaii)
Notes to Financial Statements
June 30, 2019

4. General Obligation Bond

Pursuant to Act 111, SLH 1998, reimbursable general obligation bonds of \$8,500,000 were issued in 2001 and approximately \$92,000 in other years to fund the acquisition of the Waiahole Water System. Section 14, Part IV of Act 111, SLH 1998, requires the Corporation to reimburse the State's general fund in accordance with a schedule determined by the Director of Finance, with the approval of the governor. The term of the bonds is 34 years with an interest rate of 3.00%. The principal repayment is due annually and the accrued interest is due semi-annually. The interest expense for the year ended June 30, 2019 approximated \$161,000.

The changes to the general obligation bond for the year ended June 30, 2019 are as follows:

Balance at July 1, 2018	\$ 5,425,371
Decrease	<u>(258,953)</u>
Balance at June 30, 2019	<u>\$ 5,166,418</u>

Future bond principal repayment and interest payment for years ending after June 30, 2019 are as follows:

Fiscal years ending	Principal	Interest	Total
2020	\$ 267,052	\$ 154,993	\$ 422,045
2021	275,344	146,981	422,325
2022	284,054	138,721	422,775
2023	292,948	130,199	423,147
2024	303,526	121,411	424,937
2025–2029	1,671,129	464,435	2,135,564
2030–2034	1,859,772	197,120	2,056,892
2035	212,593	6,378	218,971
	<u>\$ 5,166,418</u>	<u>\$ 1,360,238</u>	<u>\$ 6,526,656</u>

5. Non-Imposed Employee Fringe Benefits

Payroll fringe benefit costs of the Corporation's employees funded by general fund appropriations are assumed by the State and are not charged to the Corporation's operating funds. These costs, totaling approximately \$8,500, are reported as revenues and expenditures in the Corporation's financial statements for the year ended June 30, 2019.

State of Hawaii
Agribusiness Development Corporation
(A Component Unit of the State of Hawaii)
Notes to Financial Statements
June 30, 2019

6. Accrued Vacation

The changes to accrued vacation for the year ended June 30, 2019 are as follows:

Balance at July 1, 2018	\$ 264,225
Increase	61,158
Decrease	<u>(54,893)</u>
Balance at June 30, 2019	<u>\$ 270,490</u>

7. Employee Benefit Plans

Substantially all employees of the Corporation participate in the State’s various employee benefit plans, including the pension plan, post-employment healthcare and life insurance benefits plan, and a deferred compensation plan. For more information on the State’s benefit plans, refer to the State of Hawaii ACFR. The State’s ACFR can be found at the DAGS website: <https://ags.hawaii.gov/accounting/annual-financial-reports/>.

Pension Plan

The Employees’ Retirement System of the State of Hawaii (the “ERS”) is a cost-sharing, multiple-employer defined benefit pension plan. The ERS provides retirement benefits as well as death and disability benefits. All contributions, benefits and eligibility requirements are established by Hawaii Revised Statutes (“HRS”) Chapter 88, and can be amended by legislative action. The ERS issues publicly available annual financial reports that can be obtained at the ERS website: <http://ers.ehawaii.gov/resources/financials>.

- **State Policy** – The actuarial valuation of the ERS does not provide pension information by department or agency. Accordingly, the State’s policy on the accounting and reporting for pension benefits is to allocate a portion of the net pension liability, pension expense, and deferred outflows and inflows of resources to the various departments and agencies based upon a systematic methodology.
- **Contributions** – Contributions are established by HRS Chapter 88 and may be amended through legislation. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years.
- **Required Supplementary Information and Disclosures** – The State’s ACFR includes the required footnote disclosures and supplementary information on the State’s pension plan.

State of Hawaii
Agribusiness Development Corporation
(A Component Unit of the State of Hawaii)
Notes to Financial Statements
June 30, 2019

Post-Retirement Health Care and Life Insurance Benefits Plan

The State contributes to the Hawaii Employer-Union Health Benefits Trust Fund (“EUTF”), an agent multiple-employer defined benefit plan. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees, and their dependents. The retiree health benefits provided are based on date of hire. The EUTF issues an annual financial report that is available to the public at <https://eutf.hawaii.gov/reports/>.

- **State Policy** – The actuarial valuation of the EUTF does not provide other postemployment benefits (“OPEB”) information by department or agency. Accordingly, the State’s policy on the accounting and reporting for OPEB is to allocate a portion of the net OPEB liability, OPEB expense, and deferred outflows and inflows of resources to the various departments and agencies based upon a systematic methodology.
- **Contributions** – Contributions are governed by HRS Chapter 87A and may be amended through legislation. The Corporation is required to make all contributions for members.
- **Required Supplementary Information and Disclosures** – The State’s ACFR includes the required footnote disclosures and supplementary information on the State’s OPEB plan.

8. Leases

The Corporation’s leasing operations consist principally of leasing land and office space under license agreements, revocable permits, and long-term leases. The long-term agreements expire in various years through fiscal year 2053.

Future minimum lease revenues for the years ending after June 30, 2019 are:

Fiscal years ending	
2020	\$ 970,000
2021	921,000
2022	873,000
2023	849,000
2024	844,000
Thereafter	8,363,000
	<u>\$ 12,820,000</u>

Rental income from leases for parcels of land for the year ended June 30, 2019 approximated \$1,223,000.

State of Hawaii
Agribusiness Development Corporation
(A Component Unit of the State of Hawaii)
Notes to Financial Statements
June 30, 2019

9. Commitments and Contingencies

General Obligation Bonds

The Corporation is obligated to repay the State general fund for general obligation bonds in which repayments, including interest, are reimbursed from specific revenue sources of the Waiahole Water System Revolving Fund with terms corresponding to that of the related general obligation bonds (see Note 4).

Accumulated Sick Leave

Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit but may be taken only in the event of illness and is not convertible to pay upon termination of employment. However, a State employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the ERS. At June 30, 2019, accumulated sick leave was approximately \$709,000.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditures are recorded in order to reserve that portion of the applicable appropriation, is employed in the governmental funds. These amounts generally will become liabilities in future periods.

Significant encumbrances at June 30, 2019 include:

Fund	
General	\$ 751,000
Capital Projects	17,118,000
Agricultural Development Revolving	535,000
Waiahole Water System Revolving	15,000
Development and Research Revolving	270,000
	<u>\$ 18,689,000</u>

Litigation

The Corporation is a party to various legal proceedings, the outcome of which, in the opinion of management, will not have a material adverse effect on the Corporation's financial position, other than the ceded lands issue disclosed below. Losses, if any, are either covered by insurance or will be paid from legislative appropriations of the State's General Fund.

Ceded Lands and Sugarcane Lands

OHA and the State are presently in litigation involving the State's alleged failure to properly account for and pay to OHA monies due to OHA under the provision of the Hawaii State Constitution and HRS Chapter 10 for use by the State of certain lands. Further disclosure of the lawsuits and claims against the State are included in the State's ACFR.

State of Hawaii
Agribusiness Development Corporation
(A Component Unit of the State of Hawaii)
Notes to Financial Statements
June 30, 2019

Pursuant to Section 5 of Act 178, SLH 2006 and the Hawaiian Homes Commission Act, the Corporation transfers, on a quarterly basis, a portion of the income and proceeds from ceded lands and sugarcane lands to OHA and DHHL, respectively.

During the year ended June 30, 2019, approximately \$158,000 and \$255,000 were reported as operating costs in the accompanying statement of activities to OHA and DHHL, respectively.

10. Subsequent Events

COVID-19 Pandemic

In March 2020, the World Health Organization declared the outbreak of COVID-19 as a pandemic which remains a rapidly evolving situation. The extent of the impact of COVID-19 on the Corporation's financial position and results of operations will depend on future developments. While the Corporation continues to design and execute plans to mitigate these risks, the duration of the disruption and its overall financial impact is expected to be substantial but cannot be reasonably estimated at this time.

Potential Pollution Remediation Obligation

On September 27, 2021, a brush fire broke out on approximately 13 acres of land owned by the Corporation. There were an estimated 1,000 abandoned vehicles on the land that were burned in the fire. It is suspected that the existence of the abandoned vehicles for an unknown period of time and damage from the fire caused significant environmental contamination. The Corporation is working with the State Department of Health to assess the extent of the environmental contamination and appropriate remediation actions. The Corporation is unable to determine whether significant environmental contamination existed as of June 30, 2019, and has engaged an environmental consultant to perform a remediation assessment. While the Corporation cannot reasonably estimate the cost of necessary remediation activities at this time, it is reasonably possible that the cost of such activities will have a material adverse impact on the Corporation's financial position.

**Required Supplementary Information
Other Than Management's
Discussion and Analysis (Unaudited)**

State of Hawaii
Agribusiness Development Corporation
(A Component Unit of the State of Hawaii)
Budgetary Comparison Schedule – General Fund (Unaudited)
Year Ended June 30, 2019

	<u>Budgeted Amounts</u>		Actual (Budgetary Basis)	Variance with Final Budget Over (Under)
	<u>Original</u>	<u>Final</u>		
Revenues				
State allotted appropriations	\$ 950,293	\$ 950,293	\$ 770,603	\$ (179,690)
Total revenues	950,293	950,293	770,603	(179,690)
Expenditures				
General support for agriculture	950,293	950,293	770,603	(179,690)
Total expenditures	950,293	950,293	770,603	(179,690)
Excess of revenues over expenditures	\$ -	\$ -	\$ -	\$ -

State of Hawaii

Agribusiness Development Corporation

(A Component Unit of the State of Hawaii)

Budgetary Comparison Schedule –Agricultural Development Revolving Fund (Unaudited)

Year Ended June 30, 2019

	<u>Budgeted Amounts</u>		<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Program revenues	\$ 2,663,609	\$ 2,663,609	\$ 1,989,156	\$ (674,453)
Total revenues	<u>2,663,609</u>	<u>2,663,609</u>	<u>1,989,156</u>	<u>(674,453)</u>
Expenditures				
General support for agriculture	<u>2,663,609</u>	<u>2,663,609</u>	<u>1,793,764</u>	<u>(869,845)</u>
Total expenditures	<u>2,663,609</u>	<u>2,663,609</u>	<u>1,793,764</u>	<u>(869,845)</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 195,392</u>	<u>\$ 195,392</u>

State of Hawaii

Agribusiness Development Corporation

(A Component Unit of the State of Hawaii)

Budgetary Comparison Schedule – Waiahole Water System Revolving Fund (Unaudited)

Year Ended June 30, 2019

	<u>Budgeted Amounts</u>		Actual (Budgetary Basis)	Variance with Final Budget Over (Under)
	<u>Original</u>	<u>Final</u>		
Revenues				
Program revenues	\$ 1,406,985	\$ 1,406,985	\$ 857,374	\$ (549,611)
Total revenues	<u>1,406,985</u>	<u>1,406,985</u>	<u>857,374</u>	<u>(549,611)</u>
Expenditures				
Agricultural water development and irrigation services	<u>1,406,985</u>	<u>1,406,985</u>	<u>1,084,649</u>	<u>(322,336)</u>
Total expenditures	<u>1,406,985</u>	<u>1,406,985</u>	<u>1,084,649</u>	<u>(322,336)</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (227,275)</u>	<u>\$ (227,275)</u>

State of Hawaii

Agribusiness Development Corporation

(A Component Unit of the State of Hawaii)

Budgetary Comparison Schedule – Development and Research Revolving Fund (Unaudited)

Year Ended June 30, 2019

	<u>Budgeted Amounts</u>		Actual (Budgetary Basis)	Variance with Final Budget Over (Under)
	<u>Original</u>	<u>Final</u>		
Revenues				
Program revenues	\$ 500,000	\$ 500,000	\$ 504,635	\$ 4,635
Total revenues	<u>500,000</u>	<u>500,000</u>	<u>504,635</u>	<u>4,635</u>
Expenditures				
General support for agriculture	<u>500,000</u>	<u>500,000</u>	<u>261,486</u>	<u>(238,514)</u>
Total expenditures	<u>500,000</u>	<u>500,000</u>	<u>261,486</u>	<u>(238,514)</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 243,149</u>	<u>\$ 243,149</u>

State of Hawaii
Agribusiness Development Corporation
(A Component Unit of the State of Hawaii)
Notes to Required Supplementary Information (Unaudited)
Year Ended June 30, 2019

The budget of the Corporation is a detailed operating plan identifying estimated costs and results in relation to estimated revenues. The budget includes (1) the programs, services and activities to be provided during the fiscal year; (2) the estimated revenues available to finance the operating plan; and (3) the estimated spending requirements of the operating plan. The budget represents a process through which policy decisions are made, implemented and controlled. Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated periodically during the fiscal year. Amounts reflected as budgeted revenues in the General Fund Schedule of Revenues and Expenditures – Budget and Actual (Budgetary Basis) are those estimates as compiled by the Council on Revenues and the Director of Finance. Budgeted expenditures are derived primarily from the General Appropriations Act of 2017 (Act 049, SLH 2017) and from other authorizations contained in the State Constitution, the HRS, and other specific appropriations acts in various SLH.

All expenditures of appropriated funds have been made pursuant to the appropriations in the fiscal 2017–2019 biennial budget and executive supplemental budget.

The General Fund and Revolving Revenue Funds have legally appropriated annual budgets. The Capital Projects Fund’s appropriated budgets are for projects that may extend over several fiscal years.

The final legally adopted budgets in the accompanying General Fund and Revolving Revenue Funds Budgetary Comparison Schedules represent the original appropriations, transfers and other legally authorized legislative and executive changes.

The legal level of budgetary control is maintained at the appropriation line item level by department, program and source of funds as established in the appropriations acts. The Governor is authorized to transfer appropriations between programs within the same department and source of funds; however, transfers of appropriations between departments generally require legislative authorization. Records and reports reflecting the detailed level of control are maintained by and are available at the Department of Accounting and General Services. During the year ended June 30, 2019, there were no expenditures in excess of appropriations in the individual funds.

To the extent not expended or encumbered, General Fund and Revolving Revenue Funds appropriations subject to budgetary control generally lapse at the end of the fiscal year for which the appropriations are made. The State Legislature specifies the lapse dates and any other contingencies, which may terminate the authorizations for other appropriations.

Budgets adopted by the State Legislature for the General Fund and Revolving Revenue Funds are presented in the General Fund and Revolving Revenue Funds budgetary comparison schedules. The State’s annual budget is prepared on the budgetary basis of accounting with several differences from the preparation of the statement of revenues, expenditures, and changes in fund balances for the encumbrance of purchase order and contract obligations and accrued revenues and expenditures.

State of Hawaii
Agribusiness Development Corporation
(A Component Unit of the State of Hawaii)
Notes to Required Supplementary Information (Unaudited)
Year Ended June 30, 2019

Reconciliations of the budgetary to GAAP basis operating results for the year ended June 30, 2019 are as follows:

	General Fund	Agricultural Development Revolving Fund	Waiahole Water System Revolving Fund	Development and Research Revolving Fund
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses actual on budgetary basis	\$ -	\$ 195,392	\$ (227,275)	\$ 243,149
Reserved for encumbrances at fiscal year-end	725,603	372,832	14,877	249,659
Revenue and expenditure accruals for the year not recognized for budgetary purposes, net of prior year accruals	-	(142,959)	34,583	13,190
Expenditures for prior fiscal years' encumbrances	<u>(78,396)</u>	<u>(538,138)</u>	<u>(75,745)</u>	<u>(296,526)</u>
Net change in fund balances – GAAP basis	<u>\$ 647,207</u>	<u>\$ (112,873)</u>	<u>\$ (253,560)</u>	<u>\$ 209,472</u>

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



**Report of Independent Auditors 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***

The Auditor
State of Hawaii

The Board of Directors
Agribusiness Development Corporation

We have audited, in accordance with the 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, each major fund, and the aggregate remaining fund information of the State of Hawaii, Agribusiness Development Corporation (the "Corporation"), a component unit of the State of Hawaii, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated March 10, 2022.


Internal Control Over Financial Reporting

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

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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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We consider the deficiencies described in the accompanying schedule of finding as Finding No. 2019-001 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation'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*.

Management's Response to Finding

Management's response to the finding identified in our audit is described in the accompanying schedule of finding. Management's response was not subjected to the auditing procedures applied in the audit of the statutory financial statements and, accordingly, we express no opinion on it.

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 Corporation'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 Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Accuity LLP

Honolulu, Hawai'i
March 10, 2022

State of Hawaii
Agribusiness Development Corporation
(A Component Unit of the State of Hawaii)
Schedule of Finding
June 30, 2019

Finding No. 2019-001 – Internal Controls over Financial Reporting (Material Weakness)

Condition

The Corporation did not design control activities to provide reasonable assurance in the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America (“GAAP”). Thus, we proposed multiple audit adjustments and reclassifications as a result of our audit procedures. During our audit, we identified the following observations within the financial reporting process:

1. Galbraith Water Receivables

During fiscal year 2019, there were no accruals for billed but uncollected water usage associated with the delivery of irrigation water to tenants in the Galbraith area. Management invoiced the Galbraith water users out of the QuickBooks subledger. However, the QuickBooks accounts receivable report was not used during the preparation of the year-end accrual entries. Failure to record appropriate accrual entries resulted in an understatement of beginning accounts receivable as of July 1, 2018 of approximately \$8,000. An adjustment to correct the understatement was recorded as part of our audit.

Also during our testing, we noted there were no water user agreements in place between the Corporation and the Galbraith tenants during fiscal year 2019. Upon identifying that no agreements were in place, the Corporation discontinued billing the Galbraith water users in March 2019. In May 2020, the Corporation’s board of directors approved a new water user agreement and billing recommenced in early fiscal year 2021. Galbraith water users were not retrospectively invoiced for any unbilled water usage in the intervening period.

2. Land Leasing Receivables

Management prepares the monthly rental invoices out of the QuickBooks subledger. However, there were no formal procedures in place to ensure all adjustments and cash receipts were recorded timely in the subledger. Additionally, there were no procedures in place to reconcile the subledger to the State’s Financial Accounting and Management Information System (“FAMIS”). As a result, various audit adjustments were identified, and the final closing of the Corporation’s financial statements were significantly delayed while management performed a retrospective review of select tenant balances from inception to ensure the completeness and accuracy of the current ledger balance. The exceptions resulted in a net overstatement of approximately \$33,000 in program revenues for fiscal year 2019. Adjustments to correct the exceptions were recorded as part of our audit.

We also noted during our audit that accounting records frequently could not be located when needed. The result was that employees spent nonproductive time searching for needed documents and resulted in various delays to the preparation of the financial statements and the completion of the audit. This condition could also present problems when documents are needed in support of other reports subject to audit or oversight by regulatory entities.

State of Hawaii
Agribusiness Development Corporation
(A Component Unit of the State of Hawaii)
Schedule of Finding
June 30, 2019

3. Navy Service Contract Receivables

The Corporation has a service contract with the U.S. Navy that calls for an annual fixed price award and an Indefinite Delivery Indefinite Quantity (“IDIQ”) award for additional services as called for in the contract. Management invoices the Navy manually and does not maintain a schedule of contract billings or accounts receivables to monitor progress billings and subsequent collections. During the year-end financial closing process, we identified invoices that were not accrued in the correct fiscal year, which resulted in the overstatement of fiscal year 2019 revenue by approximately \$63,000. An adjustment for the overstatement was recorded by the Corporation as part of our audit. Additionally, we identified a delivery order for IDIQ work that was underbilled by approximately \$39,000 due to an unidentified error in the invoicing process. No adjustment to accrue for the amount underbilled was recorded as the Corporation has completed the delivery order and no further amounts can be invoiced to the Navy.

4. Waiahole Water System (“WWS”) Water Sales

Management prepares the monthly WWS invoices from its WWS QuickBooks subledger. However, there were no formal procedures in place to ensure all adjustments and cash receipts were recorded timely in the subledger. Additionally, there were no procedures in place to reconcile the subledger to FAMIS. As a result, various audit adjustments were identified to properly account for the water sale balances in accordance with GAAP. The exceptions resulted in a net understatement of approximately \$69,000 in program revenues for fiscal year 2019 and a net understatement of approximately \$132,000 in gross accounts receivable as of June 30, 2019. An adjustment to correct the understatement was recorded as part of our audit.

The WWS Office Manager prepares the monthly invoices, collects payments, and posts the payments to the WWS QuickBooks subledger. Allowing these functions to be controlled by the same person increases the risk that errors or misappropriation could occur and go undetected. In addition, the WWS Office Manager is the sole user of the WWS QuickBooks subledger and no formal policies are in place to allow for the continuity of access to the subledger. As a result, management was unable to access the historical billing records upon the termination of a former WWS Office Manager.

5. WWS Water Rates

Evidence was not retained to support the calculation and approval of the fiscal year 2019 water rate applied to the water users under the Kunia Water Cooperative. Although management was able to demonstrate that the water rate applied during fiscal year 2019 was correct and stated that the water rate was approved timely, the Corporation should retain the annual calculation of the water rate and its approval by executive management due to its significance over the WWS water sales. Additionally, the lack of formal policies governing the annual water rate could result in a material loss over time if an error in the water rate calculation goes undetected.

State of Hawaii
Agribusiness Development Corporation
(A Component Unit of the State of Hawaii)
Schedule of Finding
June 30, 2019

6. Accounting for Rent Credits

In certain situations, the Corporation issues rent credits to tenants in exchange for services or improvement work for leased property. Under GAAP, these exchange transactions should be reported gross as revenues and expenses. During our audit, we identified rent credits that were either recorded as a reduction of revenue or were erroneously applied to a tenant in the QuickBooks subledger. The exceptions resulted in an understatement of approximately \$84,000 in program revenue and expenses for fiscal year 2019. An adjustment to correct the understatement was recorded as part of our audit.

7. Accounts Payable Accruals

Management did not prepare an accurate listing of the Corporation's outstanding invoices. The exceptions resulted in an understatement of accounts payable of approximately \$49,000 and \$144,000 as of June 30, 2019 and 2018, respectively. Adjustments to correct the errors were recorded as part of our audit.

8. Ceded Land Liability

There are no formal reviews over the ceded lands and sugarcane lands remittances due to the Office of Hawaiian Affairs and the Department of Hawaiian Home Lands. During our audit, we noted errors in the calculation of the ceded land accruals. The errors resulted in an overstatement of approximately \$30,000 and an understatement of approximately \$5,000 of the ceded land liability as of June 30, 2019 and 2018, respectively. Adjustments to correct the errors were recorded as part of our audit.

We also noted that management recorded the land remittances as a reduction of program revenues. However, under GAAP these remittances should be reported as operating costs. This exception resulted in an understatement of program revenue and operating costs of approximately \$448,000 for fiscal year 2019. An adjustment to correct the misstatement was recorded as part of our audit.

Because the Corporation's internal control over the financial reporting did not prevent, or detect and correct, such misstatements in the Corporation's financial statements, including related disclosures, these deficiencies are considered a material weakness in internal control over financial reporting.

Criteria

Management is responsible for establishing and maintaining internal control over financial reporting for the fair presentation of the Corporation's financial statements, including the notes to the financial statements, in conformity with GAAP.

State of Hawaii
Agribusiness Development Corporation
(A Component Unit of the State of Hawaii)
Schedule of Finding
June 30, 2019

Cause

While Corporation personnel understand its operations and record its day-to-day transactions in a consistent manner, they lack the expertise to properly record and account for all transactions in accordance with GAAP. As they lack the appropriate expertise, management was unable to design an appropriate internal control system.

Effect

The failure to adequately design, implement and operate internal controls increases the risk that misstatements occur without being prevented, or detected and corrected in a timely fashion. The deficiencies resulted in the misstatements reported above and the delay in the completion of the audit of the Corporation's fiscal year 2019 financial statements until March 10, 2022.

Recommendation

We recommend that management assess the current capabilities of its employees and either (a) hire accounting personnel with the requisite knowledge and skill to prepare financial statements in accordance with GAAP or (b) procure the services of a qualified provider to assist with the preparation of financial statements in accordance with GAAP.

Corrective Action Plan (Unaudited)

DAVID Y. IGE
Governor

JOSH GREEN
Lt. Governor



JAMES J. NAKATANI
Executive Director

STATE OF HAWAII
AGRIBUSINESS DEVELOPMENT CORPORATION

235 S. Beretania Street, Room 205
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March 10, 2022

To: Leslie H. Kondo
State Auditor

From: James Nakatani, Executive Director
Agribusiness Development Corporation

Subject: ADC FY19 Audit Corrective Action Plan

In response to the State Auditor Financial Statements for Fiscal Year ending 2019, the following corrective action plan is provided for Finding No. 2019-001:

The ADC concurs with the recommendation to hire accounting personnel, which was previously unincorporated in the organizational structure of the ADC. The ADC made a request to create a new position, an ADC accountant, with the requisite knowledge and skill to prepare financial statements in accordance with GAAP. This request is currently advancing through the current legislative session.

The following measures were performed to further address Finding No. 2019-001:

1. Land Management Software Acquisition - The ADC is in the final stages of procurement of land management software that will serve to design internal controls through the improvement of management of leases, licenses and permits, integrated assets, critical dates/notifications, and recordkeeping.
2. Procurement of Qualified Provider – Prior to the completion of the land management software procurement process, the ADC procured the services of a qualified provider to assist in the land management software implementation and to better align derivable information with GAAP accordance criteria.

The anticipated completion date is June 30, 2023.