STATE OF HAWAIʻI
OFFICE OF THE AUDITOR
465 S. King Street, Room 500
Honolulu, Hawaiʻi 96813-2917

LESLIE H. KONDO
State Auditor

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DEPT. COMM. NO. 399

March 20, 2025

VIA EMAIL

The Honorable Ronald D. Kouchi
Senate President
415 South Beretania Street
Hawaiʻi State Capitol, Room 409
Honolulu, Hawaiʻi 96813

VIA EMAIL

The Honorable Nadine K. Nakamura
Speaker, House of Representatives
415 South Beretania Street
Hawaiʻi State Capitol, Room 431
Honolulu, Hawaiʻi 96813

RE: Financial Audit of the Department of Commerce and Consumer Affairs

Dear President Kouchi and Speaker Nakamura:

The audit report on the financial statements of the Department of Commerce and Consumer Affairs for the fiscal year ended June 30, 2024, was issued on March 7, 2025. The Office of the Auditor retained KMH LLP to perform the financial audit. For your information, we are attaching a copy of the two-page Auditor's Summary of the financial audit report.

You may view the financial audit report and Auditor's Summary on our website at:

https://files.hawaii.gov/auditor/Reports/2024_Audit/DCCA2024.pdf; and

https://files.hawaii.gov/auditor/Reports/2024_Audit/DCCA_Summary_2024.pdf.

If you have any questions about the report, please contact me.

Very truly yours,

Leslie H. Kondo
State Auditor

Attachment
ec/attach (Auditor's Summary only): Members of the Senate
Members of the House of Representatives
Carol Taniguchi, Senate Chief Clerk
Brian Takeshita, House Chief Clerk

Auditor’s Summary

Financial Audit of the Department of Commerce and Consumer Affairs

Financial Statements, Fiscal Year Ended June 30, 2024

PHOTO: OFFICE OF THE AUDITOR

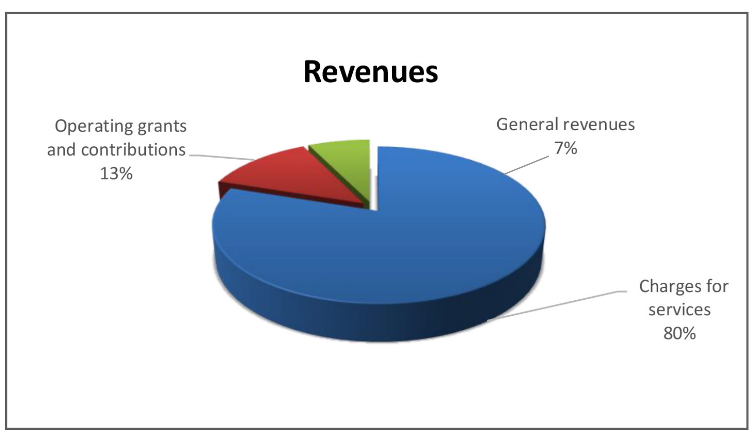
THE PRIMARY PURPOSE *of the audit was to form an opinion on the fairness of the presentation of the financial statements for the Department of Commerce and Consumer Affairs, as of and for the fiscal year ended June 30, 2024. The audit was conducted by KMH LLP.*

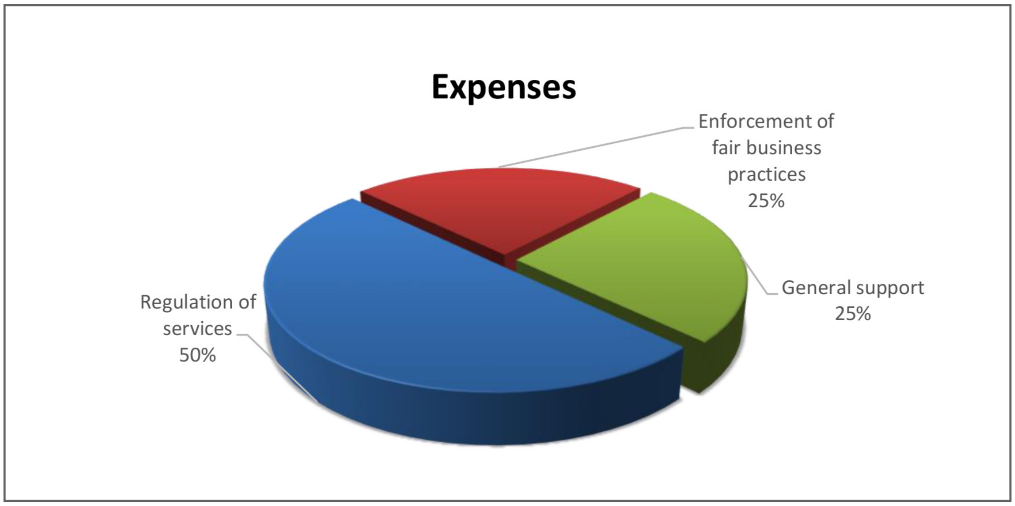
About the Department

The Department of Commerce and Consumer Affairs (DCCA) serves the public through a variety of functions, including regulating and licensing more than 140,000 professionals, monitoring the financial solvency of local banks and insurance companies, and investigating complaints of fraudulent and unfair business practices. The DCCA is made up of nine divisions: Business Registration Division, Cable Television Division, Division of Consumer Advocacy, Division of Financial Institutions, Insurance Division, Office of Administrative Hearings, Office of Consumer Protection, Professional and Vocational Licensing Division, and Regulated Industries Complaints Office.

Financial Highlights

FOR THE FISCAL YEAR ended June 30, 2024, the DCCA reported total revenues of $76.6 million and total expenses of $79.4 million resulting in a decrease in net position of $2.8 million. Revenues consisted of (1) charges for services of $61.4 million, (2) operating grants and contributions of $9.7 million, and (3) general revenues of $5.5 million.





Total expenses of $79.4 million consisted of (1) $39.8 million for regulation of services, (2) $19.4 million for enforcement of fair business practices, and (3) $20.2 million for general support.

As of June 30, 2024, total assets of $175.8 million exceeded total liabilities of $14.8 million, resulting in a net position of $161 million. Total assets included (1) cash of $159.4 million, (2) interest receivable of $500,000, (3) net capital assets of $11.8 million, and (4) other assets of $4.1 million.

Auditors' Opinions

DCCA RECEIVED AN UNMODIFIED OPINION that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles.

Findings

THERE WERE NO REPORTED DEFICIENCIES in internal control over financial reporting that were considered to be material weaknesses and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Link to the complete report:

Financial Audit

https://files.hawaii.gov/auditor/Reports/2024_Audit/DCCA2024.pdf

Department of Commerce and Consumer Affairs
State of Hawaii

Financial Statements
June 30, 2024
Together with Independent Auditor's Report

Submitted by

THE AUDITOR
STATE OF HAWAII

Table of Contents

PART I

FINANCIAL SECTION

KMHLLP

A Hawaii Limited Liability Partnership

Independent Auditor's Report

Office of the Auditor
State of Hawaii

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Department of Commerce and Consumer Affairs, State of Hawaii (Department), as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Department as of June 30, 2024, and the respective changes in financial position and the respective budgetary comparisons for the compliance resolution fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Department and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Department are intended to present the financial position, the changes in financial position and budgetary comparisons, of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Hawaii that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2024, the changes in financial position, or, where applicable, its cash flows and budgetary comparisons, for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

1003 Bishop Street ■ Suite 2400 ■ Honolulu, HI 96813 ■ Telephone: 808-526-2255 ■ Fax: 808-536-5817 ■ www.kmhllp.com

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Department's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Department's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Department's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinions on the basic financial statements are not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2025 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department'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 Department's internal control over financial reporting and compliance.

KMH LLP

KMH LLP

Honolulu, Hawaii
March 7, 2025

Department of Commerce and Consumer Affairs
State of Hawaii

Statement of Net Position
June 30, 2024

	Governmental Activities
Assets	
Current Assets:	
Equity in cash and cash equivalents and investments in State Treasury	$ 159,369,765
Interest receivable	518,511
Other receivables	2,734,563
Prepaid expenses	1,363,667
Total current assets	163,986,506
Capital Assets, net of accumulated depreciation	11,811,035
Total assets	$ 175,797,541
Liabilities and Net Position	
Current Liabilities:	
Vouchers payable	$ 1,356,648
Accrued wages and employee benefits payable	8,232,023
Leases payable, current portion	23,003
Accured compensated absences, current portion	1,431,693
Total current liabilities	11,043,367
Leases Payable, less current portion	96,306
Accured Compensated Absences, less current portion	3,622,669
Total liabilities	14,762,342
Net Position:	
Net investment in capital assets	11,811,035
Restricted	149,224,164
Total net position	161,035,199
Total liabilities and net position	$ 175,797,541

The accompanying notes are an integral part of this statement.

Department of Commerce and Consumer Affairs
State of Hawaii

Statement of Activities
For the Fiscal Year Ended June 30, 2024

Functions/Programs	Expenses	Program Revenues: Charges for services	Program Revenues: Operating grants and contributions	Net Revenue (Expense) and Changes in Net Position: Governmental activities
Governmental Activities:				
Regulation of services	$ 39,819,086	$ 34,245,099	$ 9,706,860	$ 4,132,873
Enforcement of fair business practices	19,465,520	26,612,857	-	7,147,337
General support	20,183,078	520,625	-	(19,662,453)
Total governmental activities	$ 79,467,684	$ 61,378,581	$ 9,706,860	(8,382,243)
General Revenues:				
Interest and investment income				5,546,873
Total general revenues				5,546,873
Change in net position				(2,835,370)
Net Position at July 1, 2023				163,870,569
Net Position at June 30, 2024				$ 161,035,199

The accompanying notes are an integral part of this statement.

Department of Commerce and Consumer Affairs
State of Hawaii

Balance Sheet - Governmental Funds
June 30, 2024

	Compliance Resolution Fund	Other Governmental Funds	Total Governmental Funds
Assets:			
Equity in cash and cash equivalents and investments in State Treasury	$ 138,698,577	$ 20,671,188	$ 159,369,765
Interest receivable	455,196	63,315	518,511
Prepaid expenses	1,203,369	160,298	1,363,667
Total assets	$ 140,357,142	$ 20,894,801	$ 161,251,943
Liabilities and Fund Balance			
Liabilities:			
Vouchers payable	$ 1,199,563	$ 157,085	$ 1,356,648
Accrued wages and employees benefits payable	7,759,244	472,779	8,232,023
Total liabilities	8,958,807	629,864	9,588,671
Fund Balances --			
Restricted	131,398,335	20,264,937	151,663,272
Total fund balances	131,398,335	20,264,937	151,663,272
Total liabilities and fund balances	$ 140,357,142	$ 20,894,801	$ 161,251,943

The accompanying notes are an integral part of this statement.

Department of Commerce and Consumer Affairs
State of Hawaii

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2024

Total Fund Balances - Governmental Funds		$	151,663,272
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:			
Receivables are not available to pay for current period expenditures and are not recognized in governmental funds			2,734,563
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds			11,811,035
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental fund financial statements:			
Accrued vacation payable	(5,054,362)		
Lease payable	(119,309)		(5,173,671)
Net Position of Governmental Activities		$	161,035,199

The accompanying notes are an integral part of this statement.

Department of Commerce and Consumer Affairs
State of Hawaii

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
For the Fiscal Year Ended June 30, 2024

	Compliance Resolution Fund	Other Governmental Funds	Total Governmental Funds
Revenues:			
License and fees	$ 22,726,471	$ 3,427,407	$ 26,153,878
Charges for current services	28,399,719	1,007,724	29,407,443
Fines and penalties	3,050,597	32,100	3,082,697
Tax on premiums of captive insurance companies	-	3,102,549	3,102,549
Franchise tax	2,000,000	-	2,000,000
Intergovernmental	4,604,311	-	4,604,311
Interest and investment income	4,843,943	702,930	5,546,873
Total revenues	65,625,041	8,272,710	73,897,751
Expenditures:			
Regulation of services	31,016,651	8,802,435	39,819,086
Enforcement of fair business practices	19,460,809	4,711	19,465,520
General support	19,038,119	201	19,038,320
Total expenditures	69,515,579	8,807,347	78,322,926
Deficit of expenditures over revenues	(3,890,538)	(534,637)	(4,425,175)
Fund Balances at July 1, 2023	135,288,873	20,799,574	156,088,447
Fund Balances at June 30, 2024	$ 131,398,335	$ 20,264,937	$ 151,663,272

The accompanying notes are an integral part of this statement.

Department of Commerce and Consumer Affairs
State of Hawaii

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances to the Statement of Activities
For the Fiscal Year Ended June 30, 2024

Net Change in Fund Balances - Total Governmental Funds		$ (4,425,175)
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:		
Revenues reported on the statement of activities that do not provide current financial resources are not reported as revenues in the govenrmental funds		2,734,563
Governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation and amortization expense		
Expenditures for capital assets	191,297	
Less: current year depreciation and amortization expense	(1,184,122)	(992,825)
Increase in accrued vacation payable and accrued wages reported in the statement of activities do not require the use of current financial resources and therefore not reported as expenditures in the governmental funds		(151,933)
		$ (2,835,370)

The accompanying notes are an integral part of this statement.

Department of Commerce and Consumer Affairs
State of Hawaii

Statement of Revenues and Expenditures - Budget and Actual (Non-GAAP Budgetary Basis)
Compliance Resolution Fund
For the Fiscal Year Ended June 30, 2024

	Budgeted Amounts		Actual on Budgetary Basis	Variance Favorable (Unfavorable)
	Original	Final		
Revenues:				
Franchise tax	$ 2,000,000	$ 2,000,000	$ 2,000,000	$ -
License and fees	25,317,028	25,317,028	22,753,864	(2,563,164)
Fines and penalties	3,448,179	3,448,179	3,039,394	(408,785)
Interest and investment income	1,969,883	1,969,883	4,777,934	2,808,051
Charges for current services	26,012,077	26,012,077	28,519,540	2,507,463
Other revenues	31,464	31,464	76,598	45,134
Donations, contributions & deposits	-	-	4,389	4,389
Intergovernmental	4,494,000	4,494,000	4,604,311	110,311
	63,272,631	63,272,631	65,776,030	2,503,399
Expenditures:				
Regulation of services	38,724,277	38,724,277	30,852,952	7,871,325
Enforcement of fair business practices	22,640,590	22,640,590	19,056,771	3,583,819
General support	19,497,454	19,497,454	19,344,264	153,190
	80,862,321	80,862,321	69,253,987	11,608,334
Deficiency of revenues over expenditures	$ (17,589,690)	$ (17,589,690)	$ (3,477,957)	$ 14,111,733

The accompanying notes are an integral part of this statement.

Department of Commerce and Consumer Affairs
State of Hawaii

Statement of Fiduciary Net Position - Fiduciary Funds
June 30, 2024

	Custodial Funds
Assets:	
Equity in cash and cash equivalents and investments in State Treasury	$ 4,180,016
Cash in banks	884,102
Prepaid expenses	696,000
Total assets	$ 5,760,118
Liabilities and Net Position	
Liability --	
Vouchers Payable	$ 172,611
Total liabilities	172,611
Net Position --	
Restricted	5,587,507
Total net position	5,587,507
Total liabilities and net position	$ 5,760,118

The accompanying notes are an integral part of this statement.

Department of Commerce and Consumer Affairs
State of Hawaii

Statement of Changes in Fiduciary Net Position - Fiduciary Funds
For the Fiscal Year Ended June 30, 2024

	Custodial Funds
Additions:	
Custodial collections	$ 3,139,903
Interest and investment income	261
Total additions	3,140,164
Deductions:	
Custodial disbursements	3,217,345
Other disbursements	400,708
Total deductions	3,618,053
Change in net position	(477,889)
Net Position at July 1, 2023	6,065,396
Net Position at June 30, 2024	$ 5,587,507

The accompanying notes are an integral part of this statement.

1. Financial Reporting Entity

The Department of Commerce and Consumer Affairs (DCCA), State of Hawaii (the State) serves the public through a variety of functions, including regulating and licensing more than 140,000 professionals, monitoring the financial solvency of local banks and insurance companies, and investigating complaints of fraudulent and unfair business practices. The DCCA is made up of nine divisions:

Business Registration Division - The Business Registration Division (BREG) has three primary functions: (1) ministerial business registration, processing, and maintenance of business registration documents for public access, including corporations, general and limited partnerships, limited liability partnerships, limited liability limited partnerships, limited liability companies, cooperatives, trade names, trademarks, service marks, and publicity rights; (2) one-stop assistance to businesses applying for state business and employer registrations and state taxpayer IDs; and (3) regulatory oversight over the securities industry and franchises in the State.

Cable Television Division - The Cable Television Division (CATV) supports the Director of the DCCA in the issuance of cable franchises, regulation of cable operators, and facilitation of expanded access and usage of broadband services throughout the State. The CATV's primary regulatory function is to determine whether the issuance, renewal, or transfer of a cable franchise is in the public interest.

Division of Consumer Advocacy - The Division of Consumer Advocacy (DCA) represents, protects, and advances the interests of consumers of utility and transportation services before regulatory agencies, primarily the Hawaii Public Utilities Commission.

Division of Financial Institutions - The Division of Financial Institutions (DFI) provides regulatory oversight for the State's financial service providers, which include both bank and nonbank companies. The DFI provides supervision, regulation, and examination of all Hawaii state-chartered and state-licensed financial institutions, including banks, foreign banking agencies and representative offices, savings banks, trust companies, financial services loan companies, and credit unions.

Insurance Division - The Insurance Division (INS) is responsible for overseeing the State's insurance industry, which includes insurance companies, insurance agents, self- insurers, and captive insurance companies. The division ensures that commercial and individual consumers are provided with insurance services that meet acceptable standards of quality, equity, and dependability at fair rates by establishing and enforcing appropriate service standards and by monitoring the solvency of insurers. The INS licenses, supervises, and regulates all insurance transactions in the State under Hawaii Revised Statutes (HRS) title 24 (Insurance Code). Legal service plans also fall under the INS' duties.

1. Financial Reporting Entity (continued)

Office of Administrative Hearings **-** The Office of Administrative Hearings (OAH) is a support office under the Director's Office and is responsible for conducting administrative hearings and issuing recommended decisions for all DCCA divisions that are statutorily required to provide contested case hearings under HRS chapter 91.

Office of Consumer Protection **-** The Office of Consumer Protection (OCP) acts on behalf of the DCCA Director, who serves as the consumer counsel for the State under HRS chapter 487. The OCP reviews, investigates, and conducts enforcement actions against unfair or deceptive trade practices in consumer transactions. The OCP also provides consumer education and promotes awareness of important consumer protection issues through its programs, media releases, and educational materials.

Professional and Vocational Licensing Division **-** The Professional and Vocational Licensing Division (PVL) is responsible for implementing the licensing regulations of 51 different professions and vocations. The PVL provides support to licensing regulatory boards, commissions, and programs; handles applications and licenses; reviews and processes renewals; maintains license records; provides guidance to properly implement licensing laws and administrative rules; and responds to consumer inquiries on whether a person or an entity is properly licensed, to help them decide whether to use the services of that person or entity.

Regulated Industries Complaints Office **-** As the enforcement arm of the DCCA, the Regulated Industries Complaints Office (RICO) investigates and prosecutes licensing law violations by Hawaii licensees and unlicensed persons engaging in professions and vocations that require a license. In addition, the RICO assists the general public and licensees with understanding the importance of consumer protection and licensure compliance through its broad and diverse education campaign.

The Public Utilities Commission (PUC) is administratively attached to the DCCA. Although the PUC is not a legally separate organization, it is excluded from the DCCA's financial reporting entity since the DCCA does not hold the PUC's corporate powers.

The DCCA is a part of the executive branch of the State. The financial statements of the DCCA are intended to present the financial position, the changes in financial position, and budgetary comparisons of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the DCCA. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 2024, and the changes in its financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America (GAAP). The State Comptroller maintains the central accounts for all state funds and publishes the State's Annual Comprehensive Financial Report (ACFR), which includes the DCCA's financial activities.

2. Summary of Significant Accounting Policies

a. Government-Wide and Fund Financial Statements

The government-wide financial statements, which are comprised of the statement of net position and the statement of activities, report information of all non-fiduciary activities of the DCCA.

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

Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Resources that are dedicated internally are reported as general revenues rather than program revenues. The DCCA does not allocate general government (indirect) expenses to other functions.

Net position is restricted when constraints placed on it are either imposed by constitutional provisions or enabling legislation or are externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governmental agencies. Internally imposed designations of resources are not presented as restricted net position. When both restricted and unrestricted resources are available for use, generally it is the DCCA's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds and fiduciary funds. However, the fiduciary funds are not included in the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. Nonmajor funds are summarized into a single column.

b. Measurement Focus and Basis of Accounting

i. 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

2. Summary of Significant Accounting Policies (continued)

b. Measurement Focus and Basis of Accounting (continued)

ii. Governmental Fund Financial Statements

The governmental fund 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 DCCA generally considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Business and professional licenses, related fees and charges for services are generally not considered susceptible to accrual. Therefore, revenue is recognized at the time of payment for these revenue sources.

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

iii. Fiduciary Funds Financial Statements

The financial statements of fiduciary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

c. Fund Accounting

The financial activities of the DCCA are recorded in individual funds, each of which is deemed to be a separate accounting entity. The DCCA 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.

The financial activities of the DCCA that are reported in the accompanying governmental fund financial statements include the following major governmental fund.

Compliance Resolution Fund – Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

2. Summary of Significant Accounting Policies (continued)

c. Fund Accounting (continued)

The Compliance Resolution Fund (CRF) is a special revenue fund that is the primary funding source for the DCCA's programs. Pursuant to HRS section 26-9(o), fees shall be assessed and deposited into the CRF for issuance of a license, permit, certificate, registration, and subsequent renewals, together with all other fines, income, and penalties collected or reimbursement of costs or attorneys' fees assessed from actions brought by the DCCA. The Director of the DCCA may use the monies in the CRF to employ and train hearings officers, investigators, attorneys, accountants, and other necessary personnel for CRF-funded operations, and the CRF shall defray all other administrative costs, including costs to operate the supporting offices of the DCCA. The CRF may also fund any other activity relating to compliance resolution.

The DCCA's non-major governmental funds consists of various other special revenue funds, the most significant of which is the captive insurance administrative fund.

The DCCA's fiduciary fund consists of a custodial fund. The custodial fund accounts for temporary deposits received and held by the DCCA, pending distribution to the appropriate individuals, organizations or other governments.

The DCCA accounts for governmental fund balances in accordance Governmental Accounting Standards Board (GASB) Statement No. 54 (GASBS 54), *Fund Balance Reporting and Governmental Fund Type Definitions*. GASBS 54's hierarchical fund balance classification structure is based primarily on the extent to which a government is bound to follow constraints on how resources are can be spent. Classifications include:

Nonspendable fund balance - amounts that are not in spendable form (such as inventory) or are required to be maintained intact;

Restricted - amounts constrained to specific purposes by their providers (such as creditors, grantors or other governments) through constitutional provisions, or by enabling legislation;

Committed - amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level of action to remove or change the constraint;

2. Summary of Significant Accounting Policies (continued)

c. Fund Accounting (continued)

Assigned - amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the government delegates the authority;

Unassigned - amounts that are available for any purpose; positive amounts are reported only in the general fund.

When both restricted and unrestricted balances are available for use, it is the DCCA's policy to use restricted fund balance first, then unrestricted fund balance. Furthermore, committed fund balances are reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted classifications can be used.

d. Capital Assets

Capital assets which include buildings, furniture, equipment, and computer software are reported in the government-wide financial statements. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at their estimated acquisition value at the date of donation.

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements which significantly increase values, change capacities, or extend useful lives, are capitalized. Upon sale or retirement of capital assets, the cost and the related accumulated depreciation or amortization, as applicable, are removed from the respective accounts, and any resulting gain or loss is recognized in the statement of activities. Capital assets are depreciated or amortized using the straight-line method over the useful lives below.

The DCCA has adopted the following capitalization policy:

Asset Type	Minimum Capitalization Amount	Estimated Useful Life
Land	All	Not applicable
Land improvements	$ 100,000	15 years
Buildings and improvements	$ 100,000	30 years
Furniture and equipment	$ 5,000	7 years
Computer software	$ 5,000	7 years

2. Summary of Significant Accounting Policies (continued)

e. Leases

The DCCA has a policy to recognize a lease liability and a right-to-use lease asset (lease asset) in the government-wide financial statements. The DCCA recognizes lease liabilities with an initial, individual value of $100,000 or more for land and building leases and $25,000 or more for equipment and others, with a lease term greater than one year. Variable payments based on future performance of the lessee or usage of the underlying asset are not included in the measurement of the lease liability.

At the commencement of a lease, the initial measurement of the lease liability is the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made.

Lease assets are recorded at the amount of the initial measurement of the lease liabilities and modified by any lease payments made to the lessor at or before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term along with any initial direct costs that are ancillary charges necessary to place the lease assets into service. Lease assets are amortized using the straight-line method over the shorter of the lease term or the useful life of the underlying asset, unless the lease contains a purchase option that the DCCA has determined is reasonably certain of being exercised. In this case, the lease asset is amortized over the useful life of the underlying asset.

Key estimates and judgments related to leases include how the DCCA determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The DCCA uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the DCCA generally uses its estimated incremental borrowing rate as the discount rate for leases.

- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that DCCA is reasonably certain to exercise.

The DCCA monitors changes in circumstances that would require a remeasurement of its lease and will remeasure any lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability. Lease assets are reported in capital assets and lease liabilities are reported with long-term liabilities on the statement of net position in the government wide financial statement.

2. Summary of Significant Accounting Policies (continued)

f. Compensated Absences

It is the DCCA'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. Employees are credited with vacation at the rate 168 hours per calendar year. Accumulation of such vacation credits is limited to 720 hours at calendar year-end and is convertible to pay upon termination of employment. Such accumulated vacation has been accrued and reflected in the government-wide statement of net position.

g. Restrictions of Net Position

In the government-wide financial statements, net position is reported in three components: net investment in capital assets, restricted, and unrestricted. The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of borrowings that are attributable to the acquisition, construction, or improvements of those assets.

The restricted component of net position is reported as restricted when constraints placed on net position use are either 1) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or 2) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge, or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. The unrestricted component of net position would be the net amount of assets and liabilities that are not included in the determination of net investment in capital assets or the restricted components of net position.

h. Risk Management

The DCCA is exposed to various risks for losses related to torts; theft of, damage to, or destruction of assets; errors or omissions; natural disasters; and injuries to employees. A liability for a claim for a risk of loss is established if information indicates that it is probable that a liability has been incurred at the date of the basic financial statements and the amount of the loss is reasonably estimable.

2. Summary of Significant Accounting Policies (continued)

i. Deferred Compensation Plan

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all State employees, permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. All plan assets are held in a trust fund to protect them from claims of general creditors. The State has no responsibility for loss due to the investment or failure of investment of funds and assets in the plan, but does have the duty of due care that would be required of an ordinary prudent investor. Accordingly, the assets and liabilities of the State's deferred compensation plan are not reported in the State's or the DCCA's basic financial statements.

j. Use of Estimates

The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements. Actual results may differ from those estimates.

k. Recently Adopted Accounting Pronouncements

In April 2022, GASB issued Statement No. 99, *Omnibus.* 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. Certain requirements of this Statement were effective immediately while other requirements are effective for fiscal years beginning after June 15, 2023, respectively. The adoption of this Statement did not have a material effect on the DCCA's financial statements.

In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections—an amendment of GASB Statement No. 62.* The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this Statement were effective for reporting periods beginning after June 15, 2023. The adoption of this Statement did not have a material effect on the DCCA's financial statements.

2. Summary of Significant Accounting Policies (continued)

l. New Accounting Pronouncements

In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The primary objective of the Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. The requirements of this Statement are effective for reporting periods beginning after December 15, 2023. The DCCA has not yet determined the effect this Statement will have on its financial statements.

3. Budgeting and Budgetary Control

Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated throughout the fiscal year. Amounts reflected as budgeted revenues in the statement of revenues and expenditures budget and actual (non-GAAP - budgetary basis) - Compliance Resolution Funds - 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 2023 (Act 164, SLH 2023), and from other authorizations contained in the State Constitution, Hawaii Revised Statutes, and other specific appropriation acts in various Session Laws of Hawaii.

All expenditures of appropriated funds have been made pursuant to the appropriations in the fiscal 2023-2025 biennial budget and executive supplemental budget. The special revenue funds have legally appropriated budgets.

The final legally adopted budgets in the accompanying statement of revenues and expenditures - budget and actual (non-GAAP budgetary basis) - Compliance Resolution Fund 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 of the State 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.

To the extent not expended or encumbered, special revenue fund 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.

3. Budgeting and Budgetary Control

Budgets adopted by the State Legislature for each major special revenue that has a legally adopted annual budget are presented in the statement of revenues and expenditures budget - and actual (non-GAAP budgetary basis) - Compliance Resolution Fund. The State's annual budget is prepared on the cash basis of accounting except for the encumbrance of purchase orders and contract obligations (basis difference), which is a departure from GAAP.

A reconciliation of the budgetary to GAAP basis operating results for the fiscal year ended June 30, 2024 follows:

	Compliance Resolution Fund
Deficit of expenditures over revenues - actual on a budgetary basis	$ (3,477,957)
Reserved for encumbrances at fiscal year end	6,225,565
Net change in vouchers payable	(284,198)
Net change in accrued liabilities	(6,185,333)
Net change in prepaid expenses	(17,624)
Net change in cash	(217,000)
Net change from interest	66,009
Deficit of expenditures over revenues - GAAP basis	$ (3,890,538)

4. Equity in Cash and Cash Equivalents and Investments in State Treasury

The State Director of Finance is responsible for safekeeping of cash 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 System. Funds in the investment pool accrue interest based on the average weighted cash balances of each account. The State requires that depository banks pledge as collateral, governmental securities held in the name of the State for deposits not covered by federal deposit insurance.

4. Equity in Cash and Cash Equivalents and Investments in State Treasury (continued)

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 the DCCA. However, as all of the DCCA's monies are held in the State cash pool, the DCCA 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 ACFR which may be obtained from the State Department of Accounting and General Services' website: http://ags.hawaii.gov/accounting/annual-financial-reports/.

5. Capital Assets

For the fiscal year ended June 30, 2024, capital assets activity for the DCCA was as follows:

	Balance July 1, 2023	Additions	Disposals	Balance June 30, 2024
Governmental Activities:				
Depreciable Assets:				
Buildings	$ 32,977,590	$ -	$ -	$ 32,977,590
Furniture, equipment and computer software	2,062,990	66,754	(200,939)	1,928,805
Right-of-use asset	28,593	124,543	-	153,136
Total depreciable assets	35,069,173	191,297	(200,939)	35,059,531
Less: Accumulated Depreciation	(22,262,416)	(1,184,122)	198,042	(23,248,496)
Governmental activities capital assets, net	$ 12,806,757	$ (992,825)	$ (2,897)	$ 11,811,035

As of June 30, 2024, depreciation and amortization expense charged to the general support function totaled $1,184,122.

6. Long-Term Liabilities

The change in long-term liabilities during the fiscal year ended June 30, 2024, was as follows:

	Accrued Compensated Absences
Balance as of July 1, 2023	$ 4,902,430
Additions	2,099,800
Reductions	(1,947,868)
Balance as of June 30, 2024	5,054,362
Less: current portion	(1,431,693)
	$ 3,622,669

The accrued compensated absences liability will be liquidated by the DCCA's governmental funds.

7. Temporary Hazard Pay

The State entered into several settlement agreements with certain unions regarding Temporary Hazard Pay (THP) for employees who performed essential functions during the COVID-19 pandemic, covering periods from March 2020 through March 2022. For the fiscal year ended June 30, 2024, the DCCA's total accrued payroll related to THP was $6,069,065.

Act 049, SLH 2024 provided emergency appropriations for public employment cost items and cost adjustments for employees of certain collective bargaining units. Effective July 1, 2024, the State appropriated a total of $458.8 million as a result of a negotiated settlement for employees who met certain requirements during the COVID-19 pandemic.

As of March 7, 2025, the State continues to negotiate with the remaining unions, and it was not practical to estimate the total liability owed to eligible employees.

8. Fund Balance

The following table presents the DCCA's fund balance by major function as of June 30, 2024:

	Compliance Resolution Fund	Other Governmental Funds	Total
Restricted			
Regulation of services	$ 55,424,356	$ 20,000,016	$ 75,424,372
Enforcement of fair business practices	69,107,312	137,661	69,244,973
General support	6,866,667	127,260	6,993,927
	$ 131,398,335	$ 20,264,937	$ 151,663,272

9. Commitments and Contingencies

a. 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 State's Employees' Retirement System. At June 30, 2024, accumulated sick leave was approximately $14,056,000.

b. 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 as of June 30, 2024 were as follows:

Compliance Resolution Fund	$ 5,343,229
Non-major Other Governmental Funds	(153,425)
	$ 5,189,804

9. Commitments and Contingencies (continued)

c. Litigation

From time to time, the DCCA is named as a defendant in various legal proceedings. Such claim amounts cannot be reasonably estimated at this time. Although the DCCA and its counsel are unable to express opinions as to the outcome of on-going litigation, it is their opinion that any potential liability arising therefrom will not have a material adverse effect on the financial position of the DCCA because any judgments against the DCCA are judgments against the State and would be funded by the legislative appropriation of the State General Fund.

10. Cable Television Franchise Fees

The grant of a cable franchise gives the recipient a non-exclusive right to use and occupy certain limited and scarce public places, highways and easements for the construction, use, operation and maintenance of a cable system in the State for a fixed period. In exchange, among other responsibilities, cable operators are required to pay an annual franchise fee in an amount equal to up to 5% of their annual gross revenues of their respective cable systems. For the fiscal year ended June 30, 2024, 1% of the annual franchise fee totaling $1,625,954 was allocated to the DCCA to administer its responsibilities under HRS Section 440G and is presented as program revenue in the government-wide statement of activities. The remaining 4% of the annual franchise fee are State realizations and are not recorded as revenue in the DCCA's financial statements. Since the Director of the DCCA has the power and jurisdiction to supervise and regulate every cable operator in the State, the DCCA has a fiduciary duty to ensure that the proceeds from the 4% franchise fee are remitted by the cable operators in accordance with the terms and conditions of the franchise agreement.

In issuing a cable franchise, the State through the DCCA requires that cable operators support public, educational, and governmental (PEG) access facilities and services. Support may be provided in various ways, including setting aside several channels for PEG access and through providing a percentage of gross revenues for PEG use. The DCCA has contracted oversight of access channels to nonprofit entities located in each of Hawaii's four major counties. In fiscal year 2024, 3% of the annual franchise fee was allocated to PEG access facilities and services. These fees, totaling $10,822,502 for the period January 1, 2023 to December 31, 2023, were remitted directly from the cable operators to the contracted PEG entities during the fiscal year ended June 30, 2024. Cable franchises are also required to provide funding to Hawaii Public Television Foundation (HPTF) dba PBS Hawaii, or the Director's designee. HPTF provides statewide non-commercial broadcasting of Public Broadcasting Service's educational, cultural, and historic programs as well as local programming that educates, informs, and entertains residents, businesses, and visitors.

10. Cable Television Franchise Fees (continued)

In fiscal year 2024, 1% of the annual franchise fee was allocated to HPTF. These fees, totaling $3,607,501 for the period January 1, 2023 to December 31, 2023, were remitted directly from the cable operators to HPTF during the fiscal year ended June 30, 2024.

11. Transactions with Other State Departments and Agencies

In accordance with HRS Section 269-33, the PUC allocates funds to the DCCA on a quarterly basis that are deposited in the Compliance Resolution Fund. For the fiscal year ended June 30, 2024, the amount allocated to the DCCA totaled $4,604,311.

The DCCA assesses a quarterly administrative charge to the PUC. Amounts assessed by DCCA totaled $452,508 for the fiscal year ended June 30, 2024.

The Central Services Division, DAGS, is responsible for providing maintenance and repair of State buildings and facilities as well as custodial and grounds maintenance services at the aforementioned State facilities. On a quarterly basis, the DCCA is assessed an amount for services provided by DAGS at State facilities that are occupied by the DCCA. For the fiscal year ended June 30, 2024, the amounts assessed to DCCA totaled $954,000.

In accordance with HRS Section 36-27, the Director of Finance of the State assesses the DCCA an amount equal to five percent of the DCCA's special fund receipts for the purpose of defraying the prorated estimate of central service expenses of the State. For the fiscal year ended June 30, 2024, the amounts assessed to DCCA totaled $3,207,317.

12. Retirement Plan

a. Plan Description

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

12. Retirement Plan (continued)

b. Benefits Provided

The ERS Pension Trust is comprised of three pension classes for membership purposes and considered to be a single plan for accounting purposes since all assets of the ERS may legally be used to pay the benefits of any of the ERS members or beneficiaries. The ERS provides retirement, disability and death benefits with three membership classes known as the noncontributory, contributory and hybrid retirement plans. The three classes provide a monthly retirement allowance equal to the benefit multiplier (generally 1.25% to 2.25%) multiplied by the average final compensation multiplied by years of credited service. Average final compensation for members hired prior to July 1, 2012 is an average of the highest salaries during any three years of credited service, excluding any salary paid in lieu of vacation for members hired January 1, 1971 or later and the average of the highest salaries during any five years of credited service including any salary paid in lieu of vacation for members hired prior to January 1, 1971. For members hired after June 30, 2012, average final compensation is an average of the highest salaries during any five years of credited service excluding any salary paid in lieu of vacation.

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

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

<u>Noncontributory Class</u>

<u>Retirement Benefits</u>

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

12. Retirement Plan (continued)

b. Benefits Provided (continued)

Noncontributory Class (continued)

Disability Benefits

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

Death Benefits

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

Ordinary death benefits are available to employees who were active at time of death with at least ten years of credited service. The surviving spouse/reciprocal beneficiary (until remarriage/reentry into a new reciprocal beneficiary relationship) and dependent children (up to age 18) receive a benefit equal to a percentage of the member's accrued maximum allowance unreduced for age or, if the member was eligible for retirement at the time of death, the surviving spouse/reciprocal beneficiary receives 100% joint and survivor lifetime pension and the dependent children receive a percentage of the member's accrued maximum allowance unreduced for age.

Contributory Class for Members Hired Prior to July 1, 2012

Retirement Benefits

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

12. Retirement Plan (continued)

b. Benefits Provided (continued)

Contributory Class for Members Hired Prior to July 1, 2012 (continued)

Disability Benefits

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

Death Benefits

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

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

Contributory Class for Members Hired After June 30, 2012

Retirement Benefits

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

12. Retirement Plan (continued)

b. Benefits Provided (continued)

Contributory Class for Members Hired After June 30, 2012 (continued)

Disability and Death Benefits

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

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

Hybrid Class for Members Hired Prior to July 1, 2012

Retirement Benefits

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

Disability Benefits

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

Death Benefits

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

12. Retirement Plan (continued)

b. Benefits Provided (continued)

Hybrid Class for Members Hired Prior to July 1, 2012 (continued)

Death Benefits (continued)

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

Hybrid Class for Members Hired After June 30, 2012

Retirement Benefits

General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with ten years of credited service are eligible to retire at age 65. Employees with 30 years of credited service are eligible to retire at age 60. Sewer workers, water safety officers, and emergency medical technicians may retire with 25 years of credited service at age 55.

Disability and Death Benefits

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

12. Retirement Plan (continued)

c. Contributions

Contributions are governed by HRS Chapter 88 and may be amended through legislation. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. Since July 1, 2005, the employer contribution rate is a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. The contribution rate for fiscal year 2024 was 24% for all DCCA employees. Contributions to the pension plan from the DCCA was approximately $6,390,000 for the year ended June 30, 2024.

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

d. State Policy

Measurement of assets and actuarial valuations are made for the ERS as a whole and are not separately computed for individual participating employers such as the DCCA. It is the State's policy on the accounting and reporting for pension benefits to allocate a portion of the net pension liability, pension expense, and related deferred inflows and outflows of resources to only component units and proprietary funds that are reported separately in the State's ACFR. The State's ACFR includes the note disclosures and required supplementary information on the State's pension plan.

13. Postemployment Health Care and Life Insurance Benefits

a. Plan Description

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

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

For employees hired after June 30, 1996 but before July 1, 2001, and who retire with less than ten years of service, the State makes no contributions. For those retiring with at least ten years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For employees retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Retirees in this category can elect a family plan to cover dependents.

For employees hired on or after July 1, 2001, and who retire with less than 10 years of service, the State makes no contributions. For those retiring with at least ten years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Only single plan coverage is provided for retirees in this category. Retirees can elect family coverage but must pay the difference.

b. Contributions

Contributions are governed by HRS Chapter 87A and may be amended through legislation. Contributions to the other postemployment benefit (OPEB) plan from the DCCA was $6,053,000 for the fiscal year ended June 30, 2024. The employer is required to make all contributions for members.

13. Postemployment Health Care and Life Insurance Benefits (continued)

c. State Policy

Measurement of the actuarial valuation and the annual required contribution are made for the State as a whole and are not separately computed for the individual state departments and agencies such as the DCCA. The State has only computed the allocation of the OPEB costs to component units and proprietary funds that are reported separately in the State's ACFR.

Therefore, the OPEB costs for the DCCA was not available and are not included in the financial statements. The State's ACFR includes the note disclosures and required supplementary information on the State's OPEB plan.

14. Risk Management

The State retains various risks and insures certain excess layers with commercial insurance companies. The excess layers insured with commercial insurance companies are consistent with the prior fiscal year. Settled claims have not exceeded the coverage provided by commercial insurance companies in any of the past ten fiscal years. A summary of the State's underwriting risks is as follows:

Property Insurance **-** The State has an insurance policy with various insurers for property coverage. The limit of loss per occurrence is $200,000,000, except for terrorism losses, which has a $100,000,000 per occurrence limit. There are two different types of deductibles for the property coverage. The deductible for losses such as hurricanes, floods and earthquakes are 3% of the replacement costs to the property subject to a $1,000,000 per occurrence minimum. The deductible for all other perils such as a fire is $1,000,000. The deductible for terrorism coverage is $1,000,000.

Crime Insurance **-** The State also has a crime insurance policy for various types of coverages with a limit of loss of $10,000,000 per occurrence with a $500,000 deductible per occurrence, except for claims expense coverage, which has a $100,000 limit per occurrence and a $1,000 deductible. Losses under the deductible amount are paid by the Risk Management Office of the Department of Accounting and General Services, and losses not covered by insurance are paid from the State's General Fund.

***General Liability (including torts*)** **-** Liability claims up to $10,000 and automobile claims up to $15,000 are handled by the Risk Management Office. All other claims are handled by the Department of the Attorney General. The State has personal injury and property damage liability, including automobile and public errors and omissions, employment liability, and employee benefits liability insurance policy in force with a $4,000,000 self-insured retention per occurrence. The annual aggregate per occurrence is $9,000,000.

14. Risk Management (continued)

Cyber Liability Insurance **-** The State is insured for various types of cyber-related activities with a loss limit of $50 million with a deductible of $500,000 per occurrence. This policy includes (with sub-limits) system failure business interruption, dependent business interruption system failure, and Payment Card Industry - Data Security Standard coverage.

Self-Insured Risks **-** The State generally self-insures its automobile no-fault and workers' compensation losses. Automobile losses up to $15,000 are administered by Risk Management Office. The State administers its workers' compensation losses.

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

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Independent Auditor's Report

To the Office of the Auditor
State of Hawaii

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 (*Government Auditing Standards*), the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Hawaii, Department of Commerce and Consumer Affairs (Department), as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated March 7, 2025.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

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

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

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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department'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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

KMH LLP

KMH LLP

Honolulu, Hawaii
March 7, 2025