



State of Hawaii Public Utilities Commission

Financial Statements

June 30, 2020

**Submitted by
The Auditor
State of Hawaii**

State of Hawaii
Public Utilities Commission
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June 30, 2020

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Report of Independent Auditors

The Auditor
State of Hawaii

Commissioners
State of Hawaii, Public Utilities Commission

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and aggregate remaining fund information of the State of Hawaii, Public Utilities Commission ("PUC"), as of and for the year ended June 30, 2020 and the related notes to the financial statements, which collectively comprise the PUC'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 did not audit the financial statements of the State of Hawaii, PUC Hawaii Public Benefits Fee ("PBF"), which is a fiduciary fund that represents 97%, 95%, and 97%, respectively, of the assets, net position, and additions of the PUC's fiduciary funds.

The financial statements of the PBF were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the PBF, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.



An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, based on our audit and the report of the other auditors, the 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 PUC, as of June 30, 2020, and the respective changes in financial position 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 PUC are intended to present the financial position and the changes in financial position of only that portion of the governmental activities and each major fund and the aggregate remaining fund information of the PUC and do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2020, 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. 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 9 and budgetary comparison information on pages 37 through 39 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 April 21, 2021 on our consideration of the PUC'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 PUC'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 PUC's internal control over financial reporting and compliance.

Accuity LLP

Honolulu, Hawaii
April 21, 2021

State of Hawaii
Public Utilities Commission
Management's Discussion and Analysis (Unaudited)
June 30, 2020

The following Management's Discussion and Analysis ("MD&A") is designed to provide an overview of the financial performance of the State of Hawaii, Public Utilities Commission ("PUC") for the fiscal year ended June 30, 2020. The information presented in this MD&A should be considered in conjunction with the audited financial statements, that follow this subsection.

Financial Highlights

For the year that ended June 30, 2020, the COVID-19 pandemic and related government restrictions did not have a significant impact on the PUC's operating and financial activities.

On March 13, 2020, to address the operational activities of the Commission, the PUC issued Order 37043 setting forth the PUC's emergency filing and service procedures. This allowed the work of the Commission to continue as the PUC was able to accept filings via an all-electronic platform.

Additionally, as a result of the Governor's orders and restrictions, certain financial transactional processing procedures that were performed by paper documents for part of fiscal year 2020 were changed to electronic formats, including the use of e-signatures. Although the form of the impacted procedures changed, the actual procedures themselves were not impacted by this change.

Government-Wide Highlights

Revenues from governmental activities increased by approximately \$1.1 million to approximately \$19.4 million for the year ended June 30, 2020 from \$18.3 million for the prior fiscal year. Expenses, before transfers, increased by approximately \$1.3 million to approximately \$11.3 million for the year ended June 30, 2020 from \$10.0 million for the prior fiscal year. Transfers amounted to approximately \$7.6 million for the year ended June 30, 2020 compared to approximately \$7.7 million for the prior fiscal year, a decrease of about \$0.1 million. The net position for the PUC's governmental activities increased by approximately \$0.5 million for the current fiscal year to approximately \$23.9 million from approximately \$23.4 million from the prior fiscal year-end. The increase is primarily attributable to an excess of revenues over expenses and transfers.

Fund Highlights

At June 30, 2020, the PUC's Governmental Funds reported combined ending fund balances of approximately \$15.3 million, an increase of \$1.0 million from the prior year, which is primarily attributable to the increase in fund balance of the PUC Special Fund of approximately \$0.8 million.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the PUC's basic financial statements. The PUC's basic financial statements are comprised of three components: (1) Government-Wide financial statements, (2) Fund financial statements, and (3) notes to basic financial statements. This report also contains supplementary information required by the Governmental Accounting Standards Board ("GASB").

State of Hawaii
Public Utilities Commission
Management's Discussion and Analysis (Unaudited)
June 30, 2020

Government-Wide Financial Statements

The Government-Wide financial statements are designed to provide readers with a broad overview of the PUC's finances, in a manner like private sector businesses.

The statement of net position presents information on all of the PUC's assets and liabilities with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the PUC is improving or deteriorating.

The statement of activities presents information showing how the PUC's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, examples of which are uncollected fees due to the PUC and unused employee vacation leave.

The governmental activities of the PUC include administration, regulation and compliance.

The Government-Wide financial statements can be found on pages 10–11 of this report.

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 PUC uses fund accounting to ensure and demonstrate compliance with finance-related legal instruments. All of the funds of the PUC can be divided into two categories: (1) Governmental Funds and (2) Fiduciary Funds.

Governmental Funds

The PUC's 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, Governmental Funds financial statements focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the PUC's near-term financing requirements.

The focus of Governmental Funds is narrower than that of the Government-Wide financial statements. Accordingly, it is useful to compare the information presented for Governmental Funds with similar information presented for governmental activities in the Government-Wide financial statements. Both the Governmental Funds balance sheet and the 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.

The PUC adopts an annual appropriated budget for its General Fund and PUC Special Fund. Budgetary comparison schedules are provided for the General Fund and PUC Special Fund to demonstrate compliance with this budget. The budgetary comparison schedules are located in the required supplementary information other than MD&A section of this report.

State of Hawaii
Public Utilities Commission
Management's Discussion and Analysis (Unaudited)
June 30, 2020

Fiduciary Funds Financial Statements

Fiduciary Funds are used to account for resources held for the benefit of parties outside the PUC. Fiduciary Funds are not reflected in the Government-Wide financial statements because the resources of those funds are not available to support the PUC's program activities. The accounting used for Fiduciary Funds is presented in the statement of fiduciary net position, which includes resources that are held for others (assets), claims to those resources which were incurred in holding and administering such resources (liabilities), and the net amount available in the fund (net position); and the statement of changes in fiduciary net position which reports the activities of the fund for the fiscal year and changes in its net position as a result of those activities.

Notes to Basic Financial Statements

The notes to basic financial statements provide additional information that is essential to a full understanding of the data provided in the Government-Wide and Fund financial statements.

Required Supplementary Information

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 contains budget-to-actual schedules for the PUC's General Fund and PUC Special Fund as well as accompanying notes.

Financial Analysis

The following presents a comparative view of net position and changes in net position as of and for the fiscal years ended June 30, 2020 and 2019, respectively.

Government-Wide Statements of Net Position (Condensed)
June 30, 2020 and 2019

	Governmental Activities	
	2020	2019
Assets		
Current assets	\$ 16,178,158	\$ 15,038,743
Capital assets	9,200,532	9,659,724
Total assets	<u>25,378,690</u>	<u>24,698,467</u>
Liabilities		
Current liabilities	1,061,626	732,236
Noncurrent liabilities	454,075	554,560
Total liabilities	<u>1,515,701</u>	<u>1,286,796</u>
Net position		
Net investment in capital assets	9,200,532	9,659,724
Restricted	14,662,457	13,751,947
Total net position	<u>\$ 23,862,989</u>	<u>\$ 23,411,671</u>

State of Hawaii
Public Utilities Commission
Management's Discussion and Analysis (Unaudited)
June 30, 2020

The PUC's net position increased by approximately \$451,000, or 1.9%, between June 30, 2020 and 2019. Restricted net position, the portion of net position that can be used to finance day-to-day operations, increased by approximately \$911,000, or 6.6%, between June 30, 2020 and 2019.

Total assets increased by approximately \$680,000, or 2.8%, between June 30, 2020 and 2019. The increase in total assets is attributable to the excess of revenues over expenses and transfers.

Total liabilities increased by approximately \$229,000 or 17.8%. The increase in total liabilities is due to increases in vouchers payable and accrued expenses.

Per Hawaii Revised Statutes ("HRS"), Section 269-33 (d), "All monies in excess of \$1,000,000 remaining on balance in the public utilities commission special fund on June 30 of each year shall lapse to the credit of the state general fund." In addition, an amount not exceeding 30% of the proceeds remaining in the fund after the deduction for central services expenses shall be allocated by the PUC to the State of Hawaii, Department of Commerce and Consumer Affairs ("DCCA") Division of Consumer Advocacy, and deposited in the compliance resolution fund established HRS Section 26-9(o).

Government-Wide Statements of Activities (Condensed)
Years Ended June 30, 2020 and 2019

	Governmental Activities	
	2020	2019
Revenues		
Program service fees	\$ 19,373,841	\$ 18,314,695
Lapses of State Appropriations	(4,284)	-
Total revenues	<u>19,369,557</u>	<u>18,314,695</u>
Expenses		
Administration	3,031,180	1,303,696
Regulation	7,071,643	7,019,902
Compliance	1,228,894	1,724,771
Total expenses	<u>11,331,717</u>	<u>10,048,369</u>
Net change before transfers	<u>8,037,840</u>	<u>8,266,326</u>
Transfers	<u>(7,586,522)</u>	<u>(7,652,955)</u>
Change in net position	<u>451,318</u>	<u>613,371</u>
Net position		
Beginning net position	<u>23,411,671</u>	<u>22,798,300</u>
Ending net position	<u>\$ 23,862,989</u>	<u>\$ 23,411,671</u>

The PUC's total expenses increased by approximately \$1,283,000, or 12.8%, between the years ended June 30, 2020 and 2019. The increases in expenses are primarily attributable to increases in administration expenses. The PUC's revenues increased by approximately \$1,055,000, or 5.8%, between the years ended June 30, 2020 and 2019. The changes in revenues are attributable to the fees received by the PUC.

State of Hawaii
Public Utilities Commission
Management's Discussion and Analysis (Unaudited)
June 30, 2020

Financial Analysis of the PUC Governmental Funds

Net change in fund balance was approximately \$983,000 and \$1,612,000 for the years ended June 30, 2020 and 2019, respectively.

Pursuant to HRS Section 36-27, on a quarterly basis, 5% of the special fund receipts are paid to the state general fund to defray the expenses of the state central services. For the years ended June 30, 2020 and 2019, such payments amounted to approximately \$908,000 and \$871,000, respectively. In addition, HRS Section 36-30 requires the special fund to pay for its pro rata share of administrative expenses incurred by the department responsible for the operations supported by the special fund, which for the PUC is the DCCA. For the years ended June 30, 2020 and 2019, the pro rata share of such administrative expenses amounted to approximately \$453,000 for each year.

As required by HRS Section 269-33 (a), on a quarterly basis an amount not exceeding 30% of the proceeds remaining in the fund after the deduction for central services expenses as noted above shall be allocated by the PUC to the Division of Consumer Advocacy and deposited in the compliance resolution fund established by HRS Section 26-9(o). For the years ended June 30, 2020 and 2019, such amounts paid to the compliance resolution fund amounted to approximately \$4,494,000 and \$4,348,000, respectively.

For the years ended June 30, 2020 and 2019, such amounts in excess of \$1,000,000 that were conveyed to the state general fund amounted to approximately \$3,092,000 and \$3,305,000, respectively.

For the years ended June 30, 2020 and 2019, revenues for the special funds are the same amount as revenues on the Government-Wide financial statements.

Capital Assets

As of June 30, 2020 and 2019, capital assets, net of accumulated depreciation, amounted to approximately \$9,201,000 and \$9,660,000, respectively. For the year ended June 30, 2020, capital asset activity was as follows:

	Balance July 1, 2019	Additions	Deductions	Balance June 30, 2020
Governmental activities				
Building improvements	\$ 9,013,077	\$ -	\$ -	\$ 9,013,077
Furniture and fixtures	1,255,080	-	-	1,255,080
Equipment	173,465	38,306	-	211,771
	<u>10,441,622</u>	<u>38,306</u>	<u>-</u>	<u>10,479,928</u>
Less: Accumulated depreciation	<u>(781,898)</u>	<u>(497,498)</u>	<u>-</u>	<u>(1,279,396)</u>
Capital assets, net	<u>\$ 9,659,724</u>	<u>\$ (459,192)</u>	<u>\$ -</u>	<u>\$ 9,200,532</u>

State of Hawaii
Public Utilities Commission
Management's Discussion and Analysis (Unaudited)
June 30, 2020

Currently Known Facts, Decisions or Conditions

The COVID-19 pandemic has negatively impacted the local economy and utility revenues declined in 2020. The PUC will see a corresponding decrease in collections of the public utility fee when received in the following fiscal year. Utility revenues recovered in the fourth quarter of 2020 and based on initial projections, the decrease in revenues is within range of variation the PUC has experienced in the past five years. The PUC continues to evaluate both the long-term and short-term impacts of the COVID-19 pandemic on its operations.

Requests for Information

This financial report is designed to provide a general overview of the PUC's finances for all interested parties. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Jodi Endo-Chai, Executive Officer, State of Hawaii, Public Utilities Commission, 465 South King Street, Honolulu, HI 96813. General information about the PUC can be found on the PUC's website: <https://puc.hawaii.gov/>.

State of Hawaii
Public Utilities Commission
Statement of Net Position
June 30, 2020

	Governmental Activities
Assets	
Current assets	
Equity in cash and cash equivalents and investments in State Treasury	\$ 5,983,889
Fees receivable	9,429,653
Due from other funds	764,413
Prepaid expense	203
Total current assets	<u>16,178,158</u>
Capital assets, net	<u>9,200,532</u>
Total assets	<u><u>\$ 25,378,690</u></u>
Liabilities	
Current liabilities	
Vouchers payable	\$ 327,344
Accrued liabilities	506,519
Accrued compensated absences - current	227,763
Total current liabilities	<u>1,061,626</u>
Noncurrent liabilities	
Accrued compensated absences - noncurrent	<u>454,075</u>
Total liabilities	<u><u>1,515,701</u></u>
Net position	
Net investment in capital assets	9,200,532
Restricted for Public Utilities Commission	<u>14,662,457</u>
Total net position	<u><u>\$ 23,862,989</u></u>

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

State of Hawaii
Public Utilities Commission
Statement of Activities
Year Ended June 30, 2020

	Governmental Activities
Expenditures	
Administration	\$ 3,031,180
Regulation	7,071,643
Compliance	1,228,894
Total expenditures	<u>11,331,717</u>
Revenues	
Program service fees	<u>19,373,841</u>
Total revenues	<u>19,373,841</u>
Lapses of State allotted appropriations	(4,284)
Transfers	<u>(7,586,522)</u>
Change in net position	451,318
Net position	
Beginning of year	<u>23,411,671</u>
End of year	<u>\$ 23,862,989</u>

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

State of Hawaii
Public Utilities Commission
Governmental Funds
Balance Sheet
June 30, 2020

	General Fund	PUC Special Fund	Other Governmental Fund	Total Governmental Funds
Assets				
Current assets				
Equity in cash and cash equivalents and investments in State Treasury	\$ -	\$ 5,833,889	\$ 150,000	\$ 5,983,889
Fees receivable	-	9,429,653	-	9,429,653
Due from other funds	-	764,413	-	764,413
Prepaid expense	-	203	-	203
Total current assets	-	16,028,158	150,000	16,178,158
Total assets	\$ -	\$ 16,028,158	\$ 150,000	\$ 16,178,158
Liabilities				
Current liabilities				
Vouchers payable	\$ -	\$ 327,344	\$ -	\$ 327,344
Accrued liabilities	-	506,519	-	506,519
Total current liabilities	-	833,863	-	833,863
Total liabilities	-	833,863	-	833,863
Fund balance				
Committed	-	15,194,295	150,000	15,344,295
Total fund balance	-	15,194,295	150,000	15,344,295
Total liabilities and fund balance	\$ -	\$ 16,028,158	\$ 150,000	\$ 16,178,158

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

State of Hawaii
Public Utilities Commission
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
June 30, 2020

Total fund balance – Governmental funds	\$ 15,344,295
Amounts reported for governmental activities in the statement of net position are different because	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds	9,200,532
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of	
Accrued vacation payable	<u>(681,838)</u>
Net position of governmental activities	<u>\$ 23,862,989</u>

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

State of Hawaii
Public Utilities Commission
Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
Year Ended June 30, 2020

	General Fund	PUC Special Fund	Other Governmental Fund	Total Governmental Funds
Revenues				
Program revenues	\$ -	\$ 19,223,841	\$ 150,000	\$ 19,373,841
Total revenues	<u>-</u>	<u>19,223,841</u>	<u>150,000</u>	<u>19,373,841</u>
Expenditures				
Administration	-	2,975,443	-	2,975,443
Regulation	-	6,677,960	-	6,677,960
Compliance	6,275	1,140,247	-	1,146,522
Total expenditures	<u>6,275</u>	<u>10,793,650</u>	<u>-</u>	<u>10,799,925</u>
Excess (deficiency) of revenues over (under) expenditures	(6,275)	8,430,191	150,000	8,573,916
Other financing uses				
Net transfers	<u>-</u>	<u>(7,586,522)</u>	<u>-</u>	<u>(7,586,522)</u>
Excess (deficiency) of revenues over (under) expenditures and other financing uses	(6,275)	843,669	150,000	987,394
Lapses of State allotted appropriations	<u>(4,284)</u>	<u>-</u>	<u>-</u>	<u>(4,284)</u>
Net change in fund balance	<u>(10,559)</u>	<u>843,669</u>	<u>150,000</u>	<u>983,110</u>
Fund balances				
Beginning of year	<u>10,559</u>	<u>14,350,626</u>	<u>-</u>	<u>14,361,185</u>
End of year	<u>\$ -</u>	<u>\$ 15,194,295</u>	<u>\$ 150,000</u>	<u>\$ 15,344,295</u>

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

State of Hawaii
Public Utilities Commission
Reconciliation of the Governmental Funds Statement of Revenues,
Expenditures, and Changes in Fund Balances to the Statement of Activities
Year Ended June 30, 2020

Total net change in fund balances – Governmental funds	\$ 983,110
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.	
In the current period, these amounts are	
Capital asset additions	38,306
Depreciation expense	<u>(497,498)</u>
Excess of capital outlay over depreciation expense	(459,192)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds	
Change in accrued vacation payable	<u>(72,600)</u>
Change in net position of governmental activities	<u>\$ 451,318</u>

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

State of Hawaii
Public Utilities Commission
Fiduciary Funds
Statement of Fiduciary Net Position
June 30, 2020

	Private- Purpose Trusts
Assets	
Cash and cash equivalents	\$ 10,988,124
Contribution and program receivables	9,853,464
Total assets	<u>20,841,588</u>
Liabilities	
Current liabilities	
Accounts payable and other current liabilities	<u>9,377,012</u>
Net position	
Restricted for funding programs	<u>\$ 11,464,576</u>

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

State of Hawaii
Public Utilities Commission
Fiduciary Funds
Statement of Changes in Fiduciary Net Position
Year Ended June 30, 2020

	Private- Purpose Trusts
Additions	
Program revenues	\$ 33,832,381
Dividends and interest	170,522
Total additions	<u>34,002,903</u>
Deductions	
Program	29,971,997
Administration	2,328,308
Total deductions	<u>32,300,305</u>
Net increase in fiduciary net position	1,702,598
Net position	
Beginning of year	<u>9,761,978</u>
End of year	<u>\$ 11,464,576</u>

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

State of Hawaii
Public Utilities Commission
Notes to Financial Statements
June 30, 2020

1. Organization

The State of Hawaii, Public Utilities Commission ("PUC"), was established in 1913 with the payment of fees by regulated utilities for the maintenance of the PUC. The PUC's primary duty is to protect the public interest by overseeing and regulating public utilities to ensure that they provide reliable service at just and reasonable rates.

The PUC currently regulates over 1,800 entities, which includes all chartered, franchised, certificated and registered public utility companies that provide electricity, gas, telecommunications, private water and sewage, and motor and water carrier transportation services in the state. It also oversees the administration of a One Call Center that provides advance warning to excavators of the location of subsurface installations in the area of an excavation in order to protect those installations from damage and the Public Benefits Fee surcharge which is used to fund and support energy efficiency programs and services implemented by an independent third-party administrator on the islands of Oahu, Maui, Molokai, Lanai and Hawaii. The PUC also oversees the Telecommunications Relay Surcharge ("TRS") Fund, which is a telephone service that allows hearing and speech impaired persons to place and receive phone calls. The PUC contracted a third party to administer the service. There is no cost to the users of the telecommunications relay service. The assets of the Public Benefits Fee and the TRS Fund are for the benefit of individuals and the PUC has neither administrative nor financial involvement with those assets. Accordingly, these funds are reported as fiduciary funds.

The financial statements of the PUC are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Hawaii ("State") that is attributable to the transactions of the PUC. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 2020, 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 financial statements for the State annually, which includes the PUC's financial activities.

2. Summary of Significant Accounting Policies

The PUC's financial statements are prepared in accordance with GAAP, as prescribed by the Governmental Accounting Standards Board ("GASB"). The significant accounting policies used by the PUC are described below.

Measurement Focus, Basis of Accounting, and Financial 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 Fund 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 PUC considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Revenues susceptible to accrual include self-assessed statutorily imposed fees on chartered, franchised, certificated and registered public utility companies. Other revenues, which are not considered susceptible to accrual and therefore are not accrued, include penalties, citations, applications, motions and petitions.

Expenditures are generally recorded when a liability is incurred. However, expenditures related to compensated absences, claims and judgments are recorded only when payment is due.

Fiduciary Funds

Fiduciary Funds are used to account for resources held for the benefit of parties outside the PUC. Fiduciary Funds are not reflected in the Government-Wide financial statements because the resources of those funds are not available to support the PUC's own programs. The financial statements of Fiduciary Funds use the economic resources measurement focus and accrual basis of accounting.

Fund Accounting

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

Governmental Fund Types

- **General Fund** – This fund accounts for financial resources of the PUC’s general fund revenues appropriated by the State Legislature to the PUC, except those financial resources required to be accounted for in another fund.
- **PUC Special Fund** – This fund accounts for the fees received from public utilities, which includes all chartered, franchised, certificated and registered public utility companies that provide electricity, gas, telecommunications, private water and sewage, and motor and water carrier transportation services in the state. Such fees, which are self-assessed by these regulated companies, are imposed by applicable Hawaii Revised Statutes (“HRS”). In addition, this fund accounts for all expenditures incurred by the PUC related to its administrative, regulatory and compliance activities.

In addition to its general fund, the PUC special fund is also accounted for as a major governmental fund. The PUC special fund was established by HRS Section 269-33. HRS Section 269-33 requires that 30% of the special fund proceeds after deduction for central services expenses be allocated by the PUC to the State Department of Commerce and Consumer Affairs Division of Consumer Advocacy and deposited in its Compliance Resolution Fund. In addition, HRS Section 269-33 requires that all monies remaining in the PUC special fund at June 30 of each year that is in excess of \$1,000,000 be transferred to the State general fund. For the year ended June 30, 2020, deposits to the Division of Consumer Advocacy, Compliance Resolution Fund amounted to approximately \$4,494,000 and transfers to the State general fund amounted approximately \$3,092,000.

Use of Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

Equity in Cash and Cash Equivalents and Investments in State Treasury

Equity in cash and cash equivalents and investments in State Treasury consist of amounts held in State Treasury for governmental funds, and cash and cash equivalents consist of bank deposits and money market funds for fiduciary funds, both of which are discussed in Note 3.

Fees Receivables

Revenues for fees outstanding at the end of the year are recognized as fees receivable, substantially all of which are received within 60 days after the end of the year.

Capital Assets

Capital assets consist primarily of building improvements and furniture and equipment. Capitalization thresholds are \$100,000 for building improvements and \$5,000 for furniture and equipment and are reported in the statement of net position at cost, net of accumulated depreciation. Additions, improvements and other capital outlays that significantly increase values, increase productive capacities, or extend the useful life of an asset are capitalized. When assets are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in the statement of activities. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation expense is computed using the straight-line method over the estimated useful lives of 30 years for building improvements and seven years for furniture and equipment.

Compensated Absences

The PUC permits 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 fund only if they have matured, for example, as a result of employee resignations and retirements.

Net Position and Fund Balance

In the Government-Wide financial statements, net position is reported in three categories: net investment in capital assets, restricted net position, and unrestricted net position. Restricted net position represents net position restricted by imposition of law through enabling legislation or by parties outside of the PUC and State of Hawaii such as citizens, public interest groups, or the judiciary. Internally imposed designations of resources are not presented as restrictions of net position. The PUC's policy is to use restricted resources first, then unrestricted resources as needed.

The PUC 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:

- **Restricted** – Balances that are restricted for specific purposes by external parties such as creditors, grantors, other governments, or enabling legislation. Sources of these externally enforceable legal restrictions include creditors, grantors, other governments, or enabling legislation.
- **Committed** – Balances that can only be used for specific purposes pursuant to constraints imposed by formal action (i.e., legislation) of the highest level of decision-making authority, the State of Hawaii Legislature.

- **Assigned** – Balances that are constrained by management to be used for specific purposes, as authorized by HRS, but are not restricted or committed. Encumbrances outstanding at the end of the year are classified as assigned.
- **Unassigned** – Residual balances that are not contained in the other classifications.

The PUC spends restricted amounts of fund balance first when both restricted and unrestricted fund balances are available unless prohibited by legal documents or contracts. In addition, the PUC uses committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

Risks and Uncertainties

The PUC 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.

On March 11, 2020, the World Health Organization recognized COVID-19 as a global pandemic, prompting many national, regional and local governments to implement preventative or protective measures, such as travel and business restrictions, and wide-sweeping quarantines and stay-at-home orders. As a result, COVID-19 and the related restrictive measures have had a significant adverse impact upon many sectors of the economy, including the PUC. The COVID-19 pandemic remains a rapidly evolving situation. The extent of the impact of COVID-19 on the PUC's operations and financial results will depend on future developments, including the duration and spread of the outbreak, which are highly uncertain.

3. 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 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, government securities held in the name of the State for deposits not covered by federal deposit insurance.

GAAP 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 PUC. However, as the governmental funds are held in the State cash pool, the PUC does not manage these investments and the types of investments, and related interest rate, credit, and

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custodial risk are not determinable at the PUC level. The risk and fair value disclosures related to the State's investment pool are included in the State's Annual Comprehensive Financial Report ("ACFR") which may be obtained from the Department of Accounting and General Services ("DAGS") website: <https://ags.hawaii.gov/accounting/annual-financial-reports/>.

Cash in fiduciary funds are held by fiscal agents and are deposited in bank demand deposit accounts, which are insured by the Federal Deposit Insurance Corporation, and money market funds, which are not insured by the Federal Deposit Insurance Corporation.

4. Capital Assets

Capital assets activity for the year ended June 30, 2020 was as follows:

	Balance July 1, 2019	Additions	Deductions	Balance June 30, 2020
Governmental activities				
Building improvements	\$ 9,013,077	\$ -	\$ -	\$ 9,013,077
Furniture and fixtures	1,255,080	-	-	1,255,080
Equipment	173,465	38,306	-	211,771
	10,441,622	38,306	-	10,479,928
Less: Accumulated depreciation	(781,898)	(497,498)	-	(1,279,396)
Governmental activities capital assets, net	<u>\$ 9,659,724</u>	<u>\$ (459,192)</u>	<u>\$ -</u>	<u>\$ 9,200,532</u>

Total depreciation expense for the year ended June 30, 2020 was as follows:

	Amount
Administration	\$ 84,605
Regulation	342,863
Compliance	70,030
	<u>\$ 497,498</u>

5. Accrued Compensated Absences

The only long-term liability for governmental activities is accrued compensated absences. Long-term liability activity during the year ended June 30, 2020 was as follows:

	Amount
Balance at July 1, 2019	\$ 609,238
Additions	318,804
Deductions	(246,204)
Balance at June 30, 2020	681,838
Less: Current portion	(227,763)
Noncurrent portion	<u>\$ 454,075</u>

The accrued vacation liability will be liquidated by the PUC Special Fund.

6. Pension Plan

In accordance with the policy of the State of Hawaii, Department of Accounting and General Services, the PUC does not qualify as a reporting entity of the State that receives allocations of financial statement elements related to the pension plan.

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's website: <https://ers.ehawaii.gov/resources/financials>.

Benefits Provided

The ERS Pension Trust is comprised of three pension classes for membership purposes and is considered to be a single plan for accounting purposes since all assets of the ERS may legally be used to pay the benefits of any of the ERS members or beneficiaries. The ERS provides retirement, disability and death benefits with three membership classes known as the noncontributory, contributory and hybrid retirement classes. The three classes provide a monthly retirement allowance equal to the benefit multiplier (generally 1.25% or 2%) multiplied by the average final compensation multiplied by years of credit 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.

Noncontributory Class

- Retirement Benefits – General employees' retirement benefits are determined as 1.25% of average final compensation multiplied by the years of credited service. Employees with ten years of credited service are eligible to retire at age 62. Employees with 30 years of credited service are eligible to retire at age 55.
- Disability Benefits – Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 12.5% of average final compensation.
- Death Benefits – For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a monthly benefit of 30% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. Additional benefits are payable to surviving dependent children up to age 18. If there is no spouse/reciprocal beneficiary or dependent children, no benefit is payable.

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

Contributory Class for Members Hired Prior to July 1, 2012

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

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

Hybrid Class for Members Hired Prior to July 1, 2012

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

- *Disability Benefits* – Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation plus refund of their contributions and accrued interest. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 25% of average final compensation.
- *Death Benefits* – For service-connected deaths, the designated surviving spouse/reciprocal beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving dependent children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.

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

Contributions

Contributions are governed by HRS Chapter 88 and may be amended through legislation. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. Since July 1, 2005, the employer contribution

rate is a fixed percentage of compensation, including the normal cost, plus amounts required to pay for the unfunded actuarial accrued liabilities. The contribution rates for fiscal year 2020 was 22% for general employees. Contributions to the pension plan from the PUC were approximately \$885,000 for the year ended June 30, 2020.

Per Act 17, SLH 2017, employer contributions from the State and counties are expected to increase over four years beginning July 1, 2017. The rate for general employees was increased to 22% on July 1, 2019 and increased to 24% on July 1, 2020.

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.

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

Actuarial Assumptions

The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions adopted by the ERS Board of Trustees on August 12, 2019, based on the 2018 Experience Study for the five-year period from July 1, 2013 through June 30, 2018:

Inflation	2.50%
Payroll growth rate	3.50%
Investment rate of return	7.00% per year, compounded annual including inflation

There were no changes to ad hoc postemployment benefits including cost of living allowances.

Post-retirement mortality rates are based on the 2016 Public Retirees of Hawaii mortality table with adjustments based on generational projections of the BB projection table for 2016 and full generational projections in future years. Pre-retirement mortality rates are based on multiples of the RP-2014 mortality table based on the occupation of the member.

The long-term expected rate of return on pension plan investments was determined using a “top down approach” of the Client-Constrained Simulation-based Optimization Model (a statistical technique known as “re-sampling with a replacement” that directly keys in on specific plan-level risk factors as stipulated by the ERS’s Board of Trustees) in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future nominal rates of return (real returns and inflation) by the target asset allocation percentage.

The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

	Target Allocation	Long-Term Expected Real Rate of Return
Strategic Allocation (risk based classes)		
Broad growth	63.0%	7.10%
Principal protection	7.0%	2.50%
Real return	10.0%	4.10%
Crisis risk offset	20.0%	4.60%
Total investments	<u>100.0%</u>	

Discount Rate

The discount rate used to measure the net pension liability was 7.0%, consistent with the rate used at the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the State will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Pension Plan Fiduciary Net Position

The pension plan’s fiduciary net position is determined on the same basis used by the pension plan. The ERS financial statements are prepared using the accrual basis of accounting under which expenses are recorded when the liability is incurred, and revenues are recorded in the accounting period in which they are earned and become measurable. Employer and member contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investment purchases and sales are recorded as of their trade date. Administrative expenses are financed exclusively with investment income.

There were no significant changes after the report measurement date. Detailed information about the pension plan's fiduciary net position is available in the separately-issued ERS financial report. The ERS complete financial statements are available at <https://ers.ehawaii.gov/resources/financials>.

Payables to the Pension Plan

The PUC's contribution payable to the ERS at June 30, 2020 approximated \$75,000.

Disclosures and Required Supplementary Information

The State's ACFR includes the required disclosures and required supplementary information on the State's pension plan.

7. Postemployment Healthcare and Life Insurance Benefits

In accordance with the policy of the State of Hawaii, Department of Accounting and General Services, the PUC does not qualify as a reporting entity of the State that receives allocations of financial statement elements related to postemployment healthcare and life insurance benefits.

Plan Description

The State provides certain healthcare 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 a publicly available annual financial report that can be obtained at <https://eutf.hawaii.gov/reports>.

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 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 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.

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

Measurement of the actuarial valuation and the ARC are made for the State as a whole and are not separately computed for the individual state departments and agencies such as the PUC. The State has only computed the allocation of the other postemployment benefit ("OPEB") liability, OPEB expense, deferred outflows of resources, and deferred inflows of resources related to OPEB to component units and proprietary funds that are reported separately in the State's ACFR. Therefore, the OPEB costs for the PUC 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 plans.

Contributions

Contributions are governed by HRS Chapter 87A and may be amended through legislation. Contributions to the OPEB plan from the PUC were approximately \$577,000 for the year ended June 30, 2020. The employer is required to make all contributions for members.

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Actuarial Assumptions

The total OPEB liability in the July 1, 2019 actuarial valuation was determined using the following actuarial assumptions adopted by the EUTF's Board of Trustees on January 13, 2020, based on the experience study covering the five-year period ended June 30, 2018 as conducted for the ERS:

Inflation	2.50%
Salary increases	3.50% to 7.00% including inflation
Investment rate of return	7.00%
Healthcare cost trend rates	
PPO*	Initial rate of 8.00%, declining to a rate of 4.86% after 12 years
HMO*	Initial rate of 8.00% declining to a rate of 4.86% after 12 years
Part B & Base Monthly Contribution	Initial rate of 5.00%, declining to a rate of 4.7% after 11 years
Dental	Initial rate of 5.00% for the first two years, followed by 4.00%
Vision	Initial rate of 0.00% for first two years, followed by 2.5%
Life insurance	0.00%

* Blended rates for medical and prescription drugs.

Mortality rates are based on system-specific mortality tables utilizing scale BB to project generational mortality improvement.

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The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Private equity	10.0%	8.80%
U.S. microcap	7.0%	7.30%
U.S. equity	15.0%	5.35%
Non-U.S. equity	17.0%	6.90%
Global options	7.0%	4.75%
Core real estate	10.0%	3.90%
Private credit	6.0%	5.60%
Core bonds	3.0%	1.50%
TIPS	5.0%	1.20%
Long treasuries	6.0%	2.00%
Alternative risk premia	5.0%	2.75%
Trend following	9.0%	3.25%
Total investments	<u>100.0%</u>	

Single Discount Rate

The discount rate used to measure the net OPEB liability was 7.00%, based on the expected rate of return on OPEB plan investments of 7.00% and the municipal bond rate of 3.62% (based on the daily rate closest to but not later than the measurement date of the Fidelity “20-year Municipal GO AA Index”). Beginning with the fiscal year 2019 contribution, the State’s funding policy is to pay the recommended actuarially determined contribution, which is based on layered, closed amortization periods. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

OPEB Plan Fiduciary Net Position

The OPEB plan’s fiduciary net position has been determined on the same basis used by the OPEB plan. The EUTF’s financial statements are prepared using the accrual basis of accounting under which revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the cash flows. Employer contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due

and payable in accordance with the terms of the plan. Investment purchases and sales are recorded on a trade-date basis. Administrative expenses are financed exclusively with investment income.

There were no significant changes after the report measurement date. Detailed information about the OPEB plan's fiduciary net position is available in the separately issued EUTF financial report. The EUTF's complete financial statements are available at <https://eutf.hawaii.gov/reports/annual-financial-reports-by-fiscal-year/>.

Payables to the OPEB Plan

The PUC's contribution payable to EUTF at June 30, 2020 approximated \$26,000.

Disclosures and Required Supplementary Information

The State's ACFR includes the required disclosures and required supplementary information on the State's OPEB plan.

8. 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.

9. Commitments and Contingencies

Encumbrances

Encumbrance accounting is employed in the governmental funds. Under encumbrance accounting, purchase orders, contracts, and other commitments for expenditures are recorded in order to reserve that portion of the applicable appropriation. These amounts will become liabilities in future periods. Encumbrances totaled approximately \$3,510,000 as of June 30, 2020.

Accumulated Sick Leave

Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit but can be taken only in the event of illness and is not convertible to pay upon termination of employment. However, a State employee who retires or leaves government service in good standing with sixty days or more of unused sick leave is entitled to additional service credit in the ERS. Accumulated sick leave as of June 30, 2020 approximated \$1,960,000.

State of Hawaii
Public Utilities Commission
Notes to Financial Statements
June 30, 2020

Leases

The PUC leases office space for its district offices located in Hilo, Hawaii; Wailuku, Maui; and Lihue, Kauai under lease agreements which expire at varying dates through September 2025. Under the terms and conditions of these lease agreements, the PUC is responsible for the monthly base rent and a share of operating costs.

The PUC also leases various photocopier equipment under operating lease agreements that expire at varying dates through September 2025. In addition to the base rent, the PUC is responsible for all operating costs related to the use of this equipment.

At June 30, 2020, future minimum lease payments, not including common area fees or operating expenses, were as follows:

Fiscal year ending June 30,	
2021	\$ 26,000
2022	13,000
2023	13,000
2024	10,000
2025	5,000
	<u>\$ 67,000</u>

The rental expenditures incurred on the office space lease, including common area fees and on equipment leases, for the year ended June 30, 2020, were as follows:

	Amount
Minimum rentals under noncancelable operating leases	\$ 26,000
Common area fees and other	3,000
	<u>\$ 29,000</u>

Risk Management

Insurance coverage is maintained at the State level. The State records a liability for risk financing and insurance related losses if it is determined that a loss has been incurred and the amount can be reasonably estimated. The State retains various risks and insures certain excess layers with commercial insurance companies. The excess layers are insured with commercial insurance companies. 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 can be found in the State ACFR.

Torts and Litigation

The PUC is involved in various actions, the outcome of which, in the opinion of management, will not have a material adverse effect on the PUC's financial position. Losses, if any, are either covered by insurance or are expected to be paid from legislative appropriations of the State of Hawaii's general fund.

10. Subsequent Events

The governor's fourteenth supplementary (emergency) Proclamation, issued on October 13, 2020, suspended specific provisions of law. Included were Sections 87A-42(b) – (f), HRS, other postemployment benefits trust, 87A-43, HRS, payment of public employer contributions to the other postemployment benefits trust, and 237-31(3), HRS, remittances, related to the requirement for public employers to pay the annual required contribution to the EUTF in the fiscal year 2020–2021.

On June 30, 2020, in response to government mandates and other restrictions prompted by the COVID-19 pandemic, the PUC issued Order No. 37191 which extended the deferral of the application and assessment of penalties and interest applied to motor carriers pursuant to Hawaii Administrative Rules §§ 6-62-24 and 6-62-42, as originally provided for in Order No. 37046,1 through August 31, 2020, such that the application and assessment of penalties and interest was further deferred from July 1, 2020 to September 1, 2020.

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

State of Hawaii

Public Utilities Commission

Budgetary Comparison Schedules – General Fund and PUC Special Fund

Year Ended June 30, 2020

	General Fund				PUC Special Fund			
	Original Budget	Final Budget	Budgetary Actual	Variance – Favorable Unfavorable	Original Budget	Final Budget	Budgetary Actual	Variance – Favorable Unfavorable
Revenues								
Program revenues	\$ -	\$ -	\$ (4,284)	\$ (4,284)	\$ 19,223,841	\$ 19,223,841	\$ 19,223,841	\$ -
Total revenues	-	-	(4,284)	(4,284)	19,223,841	19,223,841	19,223,841	-
Expenditures								
Administration	-	-	-	-	2,975,443	2,975,443	4,160,762	1,185,319
Regulation	-	-	-	-	6,677,960	6,677,960	8,715,971	2,038,011
Compliance	10,559	10,559	6,275	(4,284)	1,140,247	1,140,247	1,277,404	137,157
Total expenditures	10,559	10,559	6,275	(4,284)	10,793,650	10,793,650	14,154,137	3,360,487
Excess of revenues over expenditures	\$ (10,559)	\$ (10,559)	\$ (10,559)	\$ -	\$ 8,430,191	\$ 8,430,191	\$ 5,069,704	\$ (3,360,487)

State of Hawaii
Public Utilities Commission
Note to Required Supplementary Information
Year Ended June 30, 2020

1. Budgeting and Budgetary Control

The budget of the PUC 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 throughout the fiscal year. Amounts reflected as budgeted revenues in the statement of revenues and expenditures – budget and actual (budgetary basis) – General Fund and PUC Special Fund are those estimates as compiled and reviewed by the PUC.

The final legally adopted budgets in the accompanying budgetary comparison schedules – budget and actual (budgetary basis) – General Fund and PUC Special Fund represents the original appropriations, transfers, and other legally authorized legislative and executive changes.

Budgetary control is maintained at the appropriation line item level as established in the appropriations act. The governor is authorized to transfer appropriations within a State agency; however, transfers of appropriations between state agencies generally require legislative authorization. Records and reports reflecting the detail level of control are maintained by and are available at the PUC. During the fiscal year ended June 30, 2020, there were no expenditures in excess of appropriations at the legal level of budgetary control.

To the extent not expended or encumbered, General Fund appropriations generally lapse at the end of the fiscal year for which the appropriations were 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 PUC Special Fund are presented in the accompanying budgetary comparison statement – General Fund and PUC Special Fund. The PUC'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, principally related to (1) encumbrance of purchase orders and contract obligations and (2) accrued revenues and expenditures.

State of Hawaii
Public Utilities Commission
Note to Required Supplementary Information
Year Ended June 30, 2020

A reconciliation of the budgetary to GAAP basis operating results of the General Fund and PUC Special Fund for the fiscal year ended June 30, 2020 is as follows:

	General Fund	PUC Special Fund
Excess (deficiency) of revenues over (under) expenditures – actual (budgetary basis)	\$ (10,559)	\$ 5,069,704
Reserve for encumbrances at fiscal year end	-	3,360,487
Expenditures for liquidation of prior fiscal year encumbrances	<u>4,284</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures – GAAP Basis	<u>\$ (6,275)</u>	<u>\$ 8,430,191</u>



**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

Commissioners
State of Hawaii, Public Utilities Commission

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the 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, Public Utilities Commission ("PUC") as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the PUC's basic financial statements, and have issued our report thereon dated April 21, 2021.


Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the PUC's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the PUC's internal control. Accordingly, we do not express an opinion on the effectiveness of the PUC'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings as Finding Nos. 2020-001 and 2020-002 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the PUC'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 did not disclose instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PUC's Response to Findings

The PUC's response to the findings identified in our audit is described in the accompanying corrective action plan. The PUC's response was not subject to the auditing procedures applied in the audit of the 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 PUC'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 PUC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Accuity LLP

Honolulu, Hawaii
April 21, 2021

State of Hawaii
Public Utilities Commission
Schedule of Findings
Year Ended June 30, 2020

Finding No. 2020-001: Written Internal Control Policies and Procedures (Significant Deficiency)

Repeat Finding? **No**

Condition

The PUC asserts that it uses the State of Hawaii Department of Accounting and General Services (“DAGS”) policies and procedures. We noted that these policies and procedures were not consistently followed, and that the PUC has not adapted them as necessary for the PUC’s circumstances.

Criteria

The Committee of Sponsoring Organizations (“COSO”) of The National Commission on Fraudulent Financial Reporting (“Treadway Commission”) established an integrated framework for internal control, in which COSO notes that among other objectives, management is responsible 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. This internal control framework has been widely accepted and adopted by many organizations, including governments, and is considered the standard by which internal control should be evaluated.

Effect

Lack of written internal control policies and procedures increases the likelihood that the financial statements may contain material misstatements.

Cause and View of Responsible Officials

We noted that policies and procedures were based on the policies and procedures of DAGS but were not always followed and were not adapted to the PUC’s circumstances. See corrective action plan for views of responsible officials.

Recommendation

We recommend that the PUC’s management consistently follow DAGS policies and procedures and adapt them as necessary to the PUC’s circumstances in a formal document.

State of Hawaii
Public Utilities Commission
Schedule of Findings
Year Ended June 30, 2020

Finding No. 2020-002: Reconciliation of Financial Reports and Semi-Monthly Payroll
(Significant Deficiency)

Repeat Finding? **No**

Condition

The PUC does not have a formal process of comparing its records to reports from FAMIS, the State's budgetary accounting system, before preparing its quarterly reports of receipts and disbursements. In addition, the PUC relies on postings of payroll through the interface of the Hawaii Information Portal to FAMIS and does not have a formal process to compare these postings to FAMIS with the related PRE314 reports.

Criteria

The COSO-established integrated framework for internal control notes that, among other objectives, management is responsible 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. This internal control framework has been widely accepted and adopted by many organizations, including governments, and is considered the standard by which internal control should be evaluated.

Effect

Lack of a formal written process for comparing the results of transactions according to management's accounting records to reports of those transactions from the State system fails to provide reasonable assurance that misstatements in its financial records are prevented or detected in a timely manner by the PUC personnel in the normal course of performing their assigned duties.

Cause and View of Responsible Officials

Formal written policies and procedures were not established or followed. See corrective action plan for views of responsible officials.

Recommendation

We recommend that the PUC's management immediately establish procedures over the comparison of its records of financial transactions that it relies on to report financial activities and balances with those related reports from the State, in particular, cash balances and activity should be compared to MBP430 reports and payroll postings in FAMIS should be compared to the related PRE314 reports. The comparisons should be formally documented, signed and dated by a responsible employee and approved through review by management level staff.

Corrective Action Plan (Unaudited)

DAVID Y. IGE
GOVERNOR

JOSH B. GREEN
LT. GOVERNOR



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April 16, 2021

Leslie H. Kondo
State Auditor
Office of the Auditor
465 S. King Street, Room 500
Honolulu, Hawaii 96813-2917

Dear Mr. Kondo:

Thank you for the opportunity to provide a response to the draft of Accuity's Independent Auditors Report. The Public Utilities Commission (PUC) has reviewed the draft report and is in agreement that the financial statements fairly present the PUC's financial position for the year, as of June 30, 2020.

During this inaugural financial audit engagement, the auditor identified two areas requiring improvement. Enclosed is PUC's Corrective Action Plan that includes the actions we have already taken, estimated completion dates and the personnel responsible for the corrective action.

The PUC acknowledges and welcomes the feedback and recommendations received as a result of the audit and is committed to taking the necessary steps to improve our financial reporting policies, procedures and practices. We want to thank the firm of Accuity LLC for the courtesy and professionalism extended to us.

If you have any questions or concerns, please contact me at james.p.griffin@hawaii.gov or 586-2182.

Sincerely,

James P. Griffin
Chair
Public Utilities Commission

JPG:sl

Attachment

c: Jodi Endo Chai, PUC Executive Officer
Jan Mulvey, PUC Administrative Services Officer

By e-mail (les.kondo@hawaii.gov)

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

Finding No. 2020-001: Written Internal Control Policies and Procedures

Audit Recommendation: We recommend that the PUC's management consistently follow the State's policies and procedures and adapt them as necessary to the PUC's circumstances in a formal document.

Finding No. 2020-002: Reconciliation of Financial Reports and Semi-Monthly Payroll

Audit Recommendation: We recommend that the PUC's management immediately establish procedures over the comparison of its records of financial transactions that it relies on to report financial activities and balances with those related reports from the State, in particular, cash balances and activity should be compared to MBP430 reports and payroll postings in FAMIS should be compared to the related PRE314 reports. The comparisons should be formally documented, signed and dated by a responsible employee and approved through review by management level staff.

PUC Response/Action Taken/Action To Be Taken:

In preparation for the financial audit, an Audit Working Group (AWG), composed of the PUC Administrative Services Officer, Fiscal staff and consultant Paul Kikuchi, was formed to ensure the audit was on track by managing, organizing and facilitating the PUC's audit tasks. As part of their efforts, the AWG developed a workplan that detailed the necessary schedules and reconciliations that the PUC should be completing on a routine, recurring and timely basis. The workplan creates a foundation for the Fiscal structure that will significantly improve PUC's ability to manage its resources.

Additionally, the PUC has begun and will continue to assess existing policies and procedures for our internal controls and reconciliations. We are currently developing interim internal controls and reconciliation procedures in conjunction with our organizational restructuring plan. Included in this effort is the continuous assessment and modification of these policies and procedures to align with new GASB pronouncements, as well as industry best practices.

Public Utilities Commission
Response to Report of Independent Auditors
Corrective Action Plan
Fiscal Year Ended June 30, 2020
Page 2

Furthermore, as a result of undergoing the audit examination process, the PUC began reviewing its current state, specifically the availability of resources to support our financial reporting duties and responsibilities. The PUC recognizes the importance of written policies and procedures and timely reconciliations. As such, executive management has been reviewing the availability of resources and the technical capacity of the Commission to carry-out and perform these financial functions. Based on this review, the PUC is planning to re-organize and allocate additional resources to the Fiscal Section. The re-organization and recruitment process is estimated to take 6-12 months.

Estimated Completion Date: June 2022 and on-going

Person Responsible: James Griffin, PhD, Chair, Public Utilities Commission