

STATE OF HAWAII
DEPARTMENT OF LABOR AND
INDUSTRIAL RELATIONS
WORKERS' COMPENSATION SPECIAL
COMPENSATION FUND

FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

Submitted by
The Auditor
State of Hawaii

Office of the Auditor
State of Hawaii

We have audited the accompanying statements of assets, liability and fund balances - cash basis of the State of Hawaii, Department of Labor and Industrial Relations, Workers' Compensation Special Compensation Fund as of June 30, 2009 and 2008 and the related statements of revenues collected and expenses paid and changes in unreserved fund balance - cash basis for the years then ended. These financial statements are the responsibility of the Workers' Compensation Special Compensation Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 2, these financial statements were prepared on the cash receipts and disbursements basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liability and fund balances of the State of Hawaii, Department of Labor and Industrial Relations, Workers' Compensation Special Compensation Fund as of June 30, 2009 and 2008, and its revenues collected and expenses paid and changes in unreserved fund balance for the years then ended, on the basis of accounting described in Note 2.

This report is intended solely for the information and use of management and others within the State of Hawaii, Department of Labor and Industrial Relations and the Office of the Auditor of the State of Hawaii and is not intended to be and should not be used by anyone other than these specified parties.



Honolulu, Hawaii
October 9, 2009

STATE OF HAWAII
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS
WORKERS' COMPENSATION SPECIAL COMPENSATION FUND
Statements Of Assets, Liability And Fund Balances - Cash Basis
June 30, 2009 And 2008

ASSETS

	<u>2009</u>	<u>2008</u>
Cash		
Held in State Treasury	\$ 9,233,188	\$11,058,324
Receivables		
Overpayment of benefits to claimants	620,365	603,509
Non-compliant employers	<u>6,582,903</u>	<u>5,729,760</u>
	7,203,268	6,333,269
Less allowance for doubtful accounts	<u>(6,843,000)</u>	<u>(6,020,000)</u>
	<u>360,268</u>	<u>313,269</u>
	<u>\$ 9,593,456</u>	<u>\$11,371,593</u>

LIABILITY AND FUND BALANCES

Liability		
Security deposit from self-insured employer	\$ <u>5,000</u>	\$ <u>5,000</u>
	<u>5,000</u>	<u>5,000</u>
Fund Balances		
Reserved for receivables	360,268	313,269
Unreserved	<u>9,228,188</u>	<u>11,053,324</u>
	<u>9,588,456</u>	<u>11,366,593</u>
	<u>\$ 9,593,456</u>	<u>\$11,371,593</u>

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

STATE OF HAWAII
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS
WORKERS' COMPENSATION SPECIAL COMPENSATION FUND
Statements Of Revenues Collected And Expenses Paid
And Changes In Unreserved Fund Balance - Cash Basis
Years Ended June 30, 2009 And 2008

	<u>2009</u>	<u>2008</u>
Revenues Collected		
Levy on insurance carriers and self-insured employers	\$14,047,265	\$13,484,750
Investment (loss) income	(666,213)	633,579
Penalties for non-compliance	131,579	56,721
Defaulting employers reimbursement	24,790	104,790
No dependency and non-work connected death cases	-	258,615
Other (including reimbursements of overpayment of benefits by claimants of \$74,647 and \$50,422, in 2009 and 2008, respectively)	<u>74,647</u>	<u>55,584</u>
	<u>13,612,068</u>	<u>14,594,039</u>
Expenses Paid		
Workers' compensation payments		
Secondary injury provision	6,170,757	6,334,496
Benefit adjustment	5,781,566	7,511,583
Defaulting employers	1,050,530	1,282,835
Concurrent employment	580,182	519,419
Total disability	275,472	292,639
Services of attendant and vocational rehabilitation	<u>180,300</u>	<u>131,510</u>
	14,038,807	16,072,482
Other expenses		
Inter/intra-department/agency reimbursed costs		
Attorney general's and other costs	683,925	673,208
Facilitator unit	359,336	188,360
Administrative support	251,186	202,284
Contracted services	73,988	233,656
Audit fees	25,879	-
Other	<u>4,083</u>	<u>3,421</u>
	<u>15,437,204</u>	<u>17,373,411</u>

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

STATE OF HAWAII
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS
WORKERS' COMPENSATION SPECIAL COMPENSATION FUND
Statements Of Revenues Collected And Expenses Paid
And Changes In Unreserved Fund Balance - Cash Basis
Years Ended June 30, 2009 And 2008

	<u>2009</u>	<u>2008</u>
Excess Of Expenses Paid Over Revenues Collected	\$ (1,825,136)	\$ (2,779,372)
Fund Balance, unreserved at beginning of year	<u>11,053,324</u>	<u>13,832,696</u>
Fund Balance, unreserved at end of year	<u>\$ 9,228,188</u>	<u>\$11,053,324</u>

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

STATE OF HAWAII
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS
WORKERS' COMPENSATION SPECIAL COMPENSATION FUND
Notes To Financial Statements - Cash Basis
Years Ended June 30, 2009 And 2008

1. Organization

The Workers' Compensation Special Compensation Fund (Fund) was created under Chapter 386, Section 151 of the Hawaii Revised Statutes (as amended) to allow each injured party an opportunity to receive disability benefits as provided by the State statutes. The Director of Finance of the State was custodian of the Fund and the Director of Labor and Industrial Relations was the administrator.

Under Sections 152-154 of Chapter 386 of the Hawaii Revised Statutes, the Fund was authorized to levy and collect assessments in amounts sufficient to meet the Fund's current and projected obligations. Section 153 provides for a levy assessed on insurers of employers, which was determined by the Director of Labor and Industrial Relations based on a percentage of gross premiums on workers' compensation policies. Section 154 authorized the Director of Labor and Industrial Relations to assess employers who maintain self-insured workers' compensation plans.

2. Summary Of Significant Accounting Policies

a. Basis of Accounting

The Fund's policy was to prepare its financial statements on the cash receipts and disbursements basis of accounting. Under this basis, revenues were recognized when collected rather than when earned, and expenses were recognized when paid rather than when incurred. Consequently, penalty receivables, benefits payable to claimants, and accrued litigation fees payable at June 30, 2009 and 2008 were not included in the financial statements.

b. Receivables

Receivables were recorded for financial statement presentation purposes and occurred when claimant benefit payments were made by the Fund on behalf of non-compliant employers, to deceased claimants and to claimants whose benefits were decreed through court or Department of Labor and Industrial Relations decisions. The allowance for uncollectible receivables was recognized as a reduction in receivables and accordingly, the net receivables were reported in fund balance - reserved for receivables.

STATE OF HAWAII
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS
WORKERS' COMPENSATION SPECIAL COMPENSATION FUND
Notes To Financial Statements - Cash Basis
Years Ended June 30, 2009 And 2008

3. Interest Income

Effective August 1, 1999, the Fund participated in the State Treasury Investment Pool System of the State of Hawaii. The cash held in State Treasury was included in the investment pool system and was under the direction of the Director of Finance. The interest earned on pool investments was computed monthly by the Financial Administration Division of the Department of Budget and Finance using an interest rate (approximately 3.0% per annum) applied to the monthly cash balance. The credit risk on the cash held in State Treasury was determined at the State level and not by the Fund.

At June 30, 2009, a portion of the State Treasury Investment Pool was invested in auction rate securities. Due to ongoing issues in the credit market of the United States, particularly related to auction rate securities, the State Treasury Investment Pool recorded a decrease in fair value related to its investments in auction rate securities. The change in fair value amounted to approximately \$868,000, which was recorded against investment income in the accompanying financial statements.

4. Commitments

The Fund is liable to pay workers' compensation benefits to claimants over the period of their disability. Annual benefits payable to claimants is estimated to be \$18,000,000 for the fiscal year ending June 30, 2010. The liabilities were based on commitments as of June 30, 2009, and did not include benefits which may result from cases presently on appeal.

5. Contingency

Section 153 of Chapter 386 of the Hawaii Revised Statutes provided an exemption from levy to an insurance company through December 31, 2007 for the first \$25,000,000 of written premiums in each calendar year. The insurance company is challenging the Department's application of the exemption for the fiscal year ended June 30, 2008. Included in levy on insurance carriers' revenues is a \$375,000 payment under protest from the insurance company representing one-half of the disputed assessment.

STATE OF HAWAII
DEPARTMENT OF LABOR AND
INDUSTRIAL RELATIONS
WORKERS' COMPENSATION SPECIAL
COMPENSATION FUND

FORECASTED SCHEDULE OF CASH BALANCE AND
LEVY OF ASSESSMENTS - CASH BASIS
SEPTEMBER 1, 2009 THROUGH MARCH 31, 2011

Submitted by
The Auditor
State of Hawaii

Office of the Auditor
State of Hawaii

We have compiled the accompanying forecasted schedule of cash balance and levy of assessments - cash basis of the State of Hawaii, Department of Labor and Industrial Relations, Workers' Compensation Special Compensation Fund for the period from September 1, 2009 through March 31, 2011 in accordance with attestation standards established by the American Institute of Certified Public Accountants.

The accompanying forecasted schedule presents, to the best of the Workers' Compensation Special Compensation Fund management's knowledge and belief, the cash balance and levy of assessments - cash basis of the State of Hawaii, Department of Labor and Industrial Relations, Workers' Compensation Special Compensation Fund for the forecast period. It is not intended to be a forecast of financial position or results of operations. The accompanying forecasted information and this report were prepared for the State of Hawaii, Department of Labor and Industrial Relations, Workers' Compensation Special Compensation Fund for the purpose of providing a basis from which to assess levies on insurance carriers and self-insured employers.

A compilation is limited to presenting in the form of a forecast information that is the representation of the Workers' Compensation Special Compensation Fund's management and does not include evaluation of the support for the assumptions underlying the forecast. We have not examined the forecasted schedule and, accordingly, do not express an opinion or any other form of assurance on the accompanying schedule or assumptions. Furthermore, there will usually be differences between the forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

The accompanying forecasted schedule and this report are intended solely for the information and use of the State of Hawaii, Department of Labor and Industrial Relations, Workers' Compensation Special Compensation Fund, the Office of the Auditor of the State of Hawaii, insurance carriers and self-insured employers and are not intended to be and should not be used by anyone other than the specified parties.



Honolulu, Hawaii
October 9, 2009

STATE OF HAWAII
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS
WORKERS' COMPENSATION SPECIAL COMPENSATION FUND
Forecasted Schedule Of Cash Balance And Levy Of Assessments - Cash Basis (Rounded To Nearest Thousand)
For The Nineteen-Month Period From September 1, 2009 Through March 31, 2011

	2009				2010					
	<u>September</u>	<u>October</u>	<u>November</u>	<u>December</u>	<u>January</u>	<u>February</u>	<u>March</u>	<u>April</u>	<u>May</u>	<u>June</u>
Forecasted cash balance - beginning of month	\$5,383	\$8,820	\$7,357	\$5,897	\$4,436	\$2,973	\$ 1,509	\$12,428	\$10,962	\$ 9,505
Revenues:										
Levy on insurance carriers	-	-	-	-	-	-	12,384	-	-	-
Levy on self-insured employers	4,948	-	-	-	-	-	-	-	-	-
Interest income	<u>4</u>	<u>4</u>	<u>7</u>	<u>6</u>	<u>4</u>	<u>3</u>	<u>2</u>	<u>1</u>	<u>10</u>	<u>9</u>
Total Forecasted Cash Balance and Revenues	<u>10,335</u>	<u>8,824</u>	<u>7,364</u>	<u>5,903</u>	<u>4,440</u>	<u>2,976</u>	<u>13,895</u>	<u>12,429</u>	<u>10,972</u>	<u>9,514</u>
Expenses:										
Workers' Compensation Payments:										
Benefit adjustment	709	661	661	661	661	661	661	661	661	661
Secondary injury	519	519	519	519	519	519	519	519	519	519
Defaulting employers	85	85	85	85	85	85	85	85	85	85
Total disability	23	23	23	23	23	23	23	23	23	23
Other	63	63	63	63	63	63	63	63	63	63
Other Expenses:										
Inter/intra-department reimbursed costs/others	<u>116</u>	<u>116</u>	<u>116</u>	<u>116</u>	<u>116</u>	<u>116</u>	<u>116</u>	<u>116</u>	<u>116</u>	<u>116</u>
Total Forecasted Expenses	<u>1,515</u>	<u>1,467</u>	<u>1,467</u>	<u>1,467</u>	<u>1,467</u>	<u>1,467</u>	<u>1,467</u>	<u>1,467</u>	<u>1,467</u>	<u>1,467</u>
Forecasted cash balance - end of month	<u>\$8,820</u>	<u>\$7,357</u>	<u>\$5,897</u>	<u>\$4,436</u>	<u>\$2,973</u>	<u>\$1,509</u>	<u>\$12,428</u>	<u>\$10,962</u>	<u>\$ 9,505</u>	<u>\$ 8,047</u>

See summary of significant assumptions and accounting policies and accountants' compilation report.

STATE OF HAWAII
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS
WORKERS' COMPENSATION SPECIAL COMPENSATION FUND
Forecasted Schedule Of Cash Balance And Levy Of Assessments - Cash Basis (Rounded To Nearest Thousand)
For The Nineteen-Month Period From September 1, 2009 Through March 31, 2011

	2010						2011		
	<u>July</u>	<u>August</u>	<u>September</u>	<u>October</u>	<u>November</u>	<u>December</u>	<u>January</u>	<u>February</u>	<u>March</u>
Forecasted cash balance - beginning of month	\$8,047	\$6,640	\$5,143	\$8,791	\$7,381	\$5,973	\$4,564	\$3,154	\$1,742
Revenues:									
Levy on insurance carriers	-	-	-	-	-	-	-	-	-
Levy on self-insured employers	-	-	5,058	-	-	-	-	-	-
Interest income	<u>8</u>	<u>7</u>	<u>5</u>	<u>5</u>	<u>7</u>	<u>6</u>	<u>5</u>	<u>3</u>	<u>3</u>
Total Forecasted Cash Balance and Revenues	<u>8,055</u>	<u>6,647</u>	<u>10,206</u>	<u>8,796</u>	<u>7,388</u>	<u>5,979</u>	<u>4,569</u>	<u>3,157</u>	<u>1,745</u>
Expenses:									
Workers' Compensation Payments:									
Benefit adjustment	617	706	617	617	617	617	617	617	617
Secondary injury	514	514	514	514	514	514	514	514	514
Defaulting employers	88	88	88	88	88	88	88	88	88
Total disability	23	23	23	23	23	23	23	23	23
Other	63	63	63	63	63	63	63	63	63
Other Expenses:									
Inter/intra-department reimbursed costs/others	<u>110</u>	<u>110</u>	<u>110</u>	<u>110</u>	<u>110</u>	<u>110</u>	<u>110</u>	<u>110</u>	<u>110</u>
Total Forecasted Expenses	<u>1,415</u>	<u>1,504</u>	<u>1,415</u>	<u>1,415</u>	<u>1,415</u>	<u>1,415</u>	<u>1,415</u>	<u>1,415</u>	<u>1,415</u>
Forecasted cash balance - end of month	<u>\$6,640</u>	<u>\$5,143</u>	<u>\$ 8,791</u>	<u>\$7,381</u>	<u>\$5,973</u>	<u>\$4,564</u>	<u>\$3,154</u>	<u>\$1,742</u>	<u>\$ 330</u>

See summary of significant assumptions and accounting policies and accountants' compilation report.

STATE OF HAWAII
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS
WORKERS' COMPENSATION SPECIAL COMPENSATION FUND
Summary Of Significant Assumptions And Accounting
Policies - Cash Basis
September 1, 2009 Through March 31, 2011

1. Nature Of Presentation

The accompanying forecasted schedule of cash balance and levy of assessments presents, to the best of the Workers' Compensation Special Compensation Fund management's knowledge and belief, the Fund's expected cash balance and levy of assessments for the forecast period. Accordingly, the presentation reflects management's judgment as of October 9, 2009, the date of this presentation, of the expected conditions and its expected course of action. The assumptions disclosed herein are those that the Workers' Compensation Special Compensation Fund management believes are significant to the presentation. There will usually be differences between the forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. The accompanying presentation was prepared for the Fund's use in assessing levies on insurance carriers and self-insured employers and should not be used for any other purpose.

2. Basis Of Accounting

The accompanying forecasted schedule has been prepared on the cash receipts and disbursements basis of accounting, which differs from generally accepted accounting principles.

3. Levy On Insurance Carriers And Self-Insured Employers

The forecasted assessment on insurance carriers was based on a 7.2% levy on an estimated \$172,000,000 of gross premiums written in 2009. The estimate of gross premiums was based on management's knowledge and belief. The self-insured employers' assessment for September 2010, was based on 29% of the total levies to be assessed in 2010.

The accompanying forecasted schedule does not include the additional levy assessment due from insurance carriers in March 2011.

STATE OF HAWAII
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS
WORKERS' COMPENSATION SPECIAL COMPENSATION FUND
Summary Of Significant Assumptions And Accounting
Policies - Cash Basis
September 1, 2009 Through March 31, 2011

4. Interest Income

Effective August 1, 1999, the Fund participates in the State Treasury Investment Pool System of the State of Hawaii. The interest earned on pool investments is computed monthly by the Financial Administration Division of the Department of Budget and Finance using an interest rate (1% per annum for the forecasted schedule) applied to the monthly cash balance.

5. Workers' Compensation Payments

Expenses were estimated based on trend analysis of past financial data to provide for new cases and increases in disability payments. These payments, authorized by Hawaii Revised Statutes Section 386-35, provide economic relief to permanently and totally-disabled claimants.

In 1982, legislation was passed to provide for an increase in workers' compensation benefit adjustment payments every ten years. Effective January 1, 2002, the benefit adjustment payments increased from \$437 to \$564. For the forecasted schedule of cash balance and levy of assessments - cash basis, the benefit adjustment payments is estimated to increase by 10% for new claims and the projected reimbursement to insurance carriers is estimated at approximately \$3,200,000 annually.

6. Inter/Intra-Department/Agency Reimbursed Costs

The attorney general's reimbursed costs are forecasted at approximately \$55,000 per month. Other facilitator unit and administrative support reimbursed costs are forecasted at approximately \$55,000 per month.