

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

FINANCIAL STATEMENTS  
JUNE 30, 2008 AND 2007

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, 2008 and 2007 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, 2008 and 2007, 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  
March 31, 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, 2008 And 2007

ASSETS

	<u>2008</u>	<u>2007</u>
Cash		
Held in State Treasury	\$11,058,324	\$14,837,696
Receivables		
Overpayment of benefits to claimants	603,509	608,045
Non-compliant employers	<u>5,729,760</u>	<u>5,275,934</u>
	6,333,269	5,883,979
Less allowance for doubtful accounts	<u>(6,020,000)</u>	<u>(5,845,000)</u>
	<u>313,269</u>	<u>38,979</u>
	<u>\$11,371,593</u>	<u>\$14,876,675</u>

LIABILITY AND FUND BALANCES

Liability		
Security deposit from self-insured employer	\$ <u>5,000</u>	\$ <u>1,005,000</u>
	<u>5,000</u>	<u>1,005,000</u>
Fund Balances		
Reserved for receivables	313,269	38,979
Unreserved	<u>11,053,324</u>	<u>13,832,696</u>
	<u>11,366,593</u>	<u>13,871,675</u>
	<u>\$11,371,593</u>	<u>\$14,876,675</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, 2008 And 2007

	<u>2008</u>	<u>2007</u>
Revenues Collected		
Levy on insurance carriers and self-insured employers	\$13,484,750	\$13,290,590
Interest income	633,579	796,418
No dependency and non-work connected death cases	258,615	29,117
Defaulting employers reimbursement	104,790	18,135
Penalties for non-compliance	56,721	14,255
Other (including reimbursements of overpayment of benefits by claimants of \$50,422 and \$9,678, in 2008 and 2007, respectively)	<u>55,584</u>	<u>32,011</u>
	<u>14,594,039</u>	<u>14,180,526</u>
Expenses Paid		
Workers' compensation payments		
Benefit adjustment	7,511,583	10,893,285
Secondary injury provision	6,334,496	5,858,341
Defaulting employers	1,282,835	767,187
Concurrent employment	519,419	544,685
Total disability	292,639	324,072
Services of attendant and vocational rehabilitation	<u>131,510</u>	<u>112,375</u>
	16,072,482	18,499,945
Other expenses		
Inter/intra-department/agency reimbursed costs		
Attorney general's and other costs	673,208	621,392
Administrative support	202,284	176,584
Facilitator unit	188,360	150,518
Contracted services	233,656	286,188
Other	<u>3,421</u>	<u>4,333</u>
	<u>17,373,411</u>	<u>19,738,960</u>

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Statements Of Revenues Collected And Expenses Paid  
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Years Ended June 30, 2008 And 2007

	<u>2008</u>	<u>2007</u>
Excess Of Expenses Paid Over Revenues Collected	\$ (2,779,372)	\$ (5,558,434)
Fund Balance, unreserved at beginning of year	<u>13,832,696</u>	<u>19,391,130</u>
Fund Balance, unreserved at end of year	<u>\$11,053,324</u>	<u>\$13,832,696</u>

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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, 2008 And 2007

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, 2008 and 2007 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 decreased 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.

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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 5.0% 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.

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, 2009. The liabilities were based on commitments as of June 30, 2008, 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.