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

Ohata Chun Yuen LLP
CERTIFIED PUBLIC ACCOUNTANTS

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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.

Ohata Chun Yuen LLP

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

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

LIABILITY AND FUND BALANCES

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

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

	2009	2008
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)	74,647	55,584
	13,612,068	14,594,039
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	180,300	131,510
	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	4,083	3,421
	15,437,204	17,373,411

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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

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

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.

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.