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

FINANCIAL STATEMENTS AND FORECAST

June 30, 2004 and 2003

ONTS CPA, LLP
CONSULTANTS
CURTIS S. NAKASHIMA COLLEEN Y. TSUCHIDA DENNIS Y. SAKAMOTO
700 Bishop Street Suite 250 Honolulu Hawaii 96813-4103
Telephone 808.521-7844 *Fax* 808.521-6641 *Email* oc@onts-cpa.com

Mr. Nelson Befitel
Director, State of Hawaii
Department of Labor and Industrial Relations

We have audited the statements of assets, liability and fund balances arising from cash transactions of the State of Hawaii, Department of Labor and Industrial Relations, Workers' Compensation Special Compensation Fund as of June 30, 2004 and June 30, 2003 and the related statements of revenues collected and expenses paid and changes in fund balances-unreserved 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 audit in accordance with U.S. generally accepted auditing standards. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and fund balances arising from cash transactions of the State of Hawaii, Department of Labor and Industrial Relations, Workers' Compensation Special Compensation Fund as of June 30, 2004 and June 30, 2003, and its revenues collected and expenses paid and changes in fund balances-unreserved for the years then ended, on the basis of accounting described in Note 2.

Honolulu, Hawaii
April 28, 2005

ONTS CPA, LLP

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, 2004 and 2003

ASSETS

	2004	2003
Cash		
Held in State Treasury	$22,774,926	$23,574,279
Receivables		
Overpayment of benefits to claimants	275,739	267,052
Non-compliant employers	3,882,300	3,363,791
	4,158,039	3,630,843
Less: allowance for doubtful accounts	4,021,000	3,598,000
	137,039	32,843
	$22,911,965	$23,607,122

LIABILITY AND FUND BALANCES

Liability		
Security deposit from self-insured employer	$ 1,000,000	$ 1,000,000
	1,000,000	1,000,000
Fund Balances		
Reserved for receivables	137,039	32,843
Unreserved	21,774,926	22,574,279
	21,911,965	22,607,122
	$22,911,965	$23,607,122

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 Fund Balances-Unreserved - Cash Basis
Years Ended June 30, 2004 and 2003

	2004	2003
Revenues Collected		
Levy on insurance carriers and self-insured employers	$18,096,814	$21,310,577
Interest income	569,927	744,681
Penalties for non-compliance	33,688	57,903
Other (including reimbursements of overpayment of benefits by claimants of $28,006 and $11,713, in 2004 and 2003, respectively)	50,312	13,904
No dependency and non-work connected death cases	96,930	8,977
Defaulting employers reimbursement	81,621	5,363
	18,929,292	22,141,405
Expenses Paid		
Workers' compensation payments		
Benefit adjustment	10,811,440	9,267,979
Secondary injury provision	6,130,469	5,555,651
Defaulting employers	868,373	756,347
Concurrent employment	673,338	678,610
Total disability	356,960	380,021
Services of attendant and vocational rehabilitation	110,745	104,239
	18,951,325	16,742,847
Other expenses		
Inter/intra-department/agency reimbursed costs		
Attorney general's and other costs	528,530	544,358
Administrative support	90,673	169,095
Facilitator unit	146,617	144,335
Audit fee	11,500	21,500
	19,728,645	17,622,135

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 Fund Balances-Unreserved - Cash Basis
Years Ended June 30, 2004 and 2003
(continued)

	2004	2003
(Deficiency) Excess of Revenues Collected Over Expenses Paid	(799,353)	4,519,270
Fund Balances, unreserved at beginning of year	22,574,279	18,055,009
Fund Balances, unreserved at end of year	$21,774,926	$22,574,279

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, 2004 and 2003

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, 2004 and 2003 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.

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% per annum) applied to the monthly cash balance. The Fund previously invested the funds in savings certificates and repurchase agreements. 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 was liable to pay workers' compensation benefits to claimants over the period of their disability. Estimated annual benefits payable to claimants were $18,900,000 and $20,700,000 in the fiscal year ending June 30, 2005 and the fiscal year ended June 30, 2004, respectively. The liabilities were based on commitments as of June 30, 2004 and 2003, and did not include benefits, which may result from cases presently on appeal.

ONTS CPA, LLP
CONSULTANTS
CURTIS S. NAKASHIMA COLLEEN Y. TSUCHIDA DENNIS Y. SAKAMOTO
700 Bishop Street Suite 250 Honolulu Hawaii 96813-4103
Telephone 808.521-7844 *Fax* 808.521-6641 *Email* oc@onts-cpa.com

Mr. Nelson Befitel
Director, State of Hawaii
Department of Labor and Industrial Relations

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 August 1, 2004 through March 31, 2006 in accordance with attestation 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 forecasted 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 forecasted 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 such information. 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 and 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
May 2, 2005

ONTS CPA, LLP

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 Twenty-Month Period from August 1, 2004 through March 31, 2006

	2004 August	September	October	November	December	2005 January	February	March	April	May
Forecasted cash balance - beginning of month	$21,707	$21,100	$22,790	$21,463	$21,860	$20,432	$20,126	$18,204	$26,135	$24,942
Revenues:										
Levy of insurance carriers and self-insured employers	609	2,863		1,525				9,120		112
Interest income	36	39	44	48	52	44	34	34	30	43
Other	6		5	16	2	17				
Total Forecasted Cash Balance and Revenues Before Expenses	22,358	24,002	22,839	23,052	21,914	20,493	20,160	27,358	26,165	25,097
Expenses:										
Workers' Compensation Payments:										
Benefit adjustment	516	515	568	506	542	10	908	536	536	5,036
Secondary injury	450	529	605	444	577	152	790	500	500	500
Defaulting employers	130	41	117	139	61	70	46	46	46	46
Total disability	29	29	28	29	28	1	65	30	30	30
Other	98	69	41	56	62	60	80	44	44	44
Other Expenses:										
Inter/intra-department reimbursed costs/others	35	29	17	18	212	74	67	67	67	67
Total Forecasted Expenses	1,258	1,212	1,376	1,192	1,482	367	1,956	1,223	1,223	5,723
Forecasted cash balance - end of month	$21,100	$22,790	$21,463	$21,860	$20,432	$20,126	$18,204	$26,135	$24,942	$19,374
Levy of assessments:										
Self-insured employers		$5,082								
Insurance carriers								$9,120		

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 Twenty-Month Period from August 1, 2004 through March 31, 2006

	June	July	August	September	October	November	December	2006 January	February	March
Forecasted cash balance - beginning of month	$19,374	$18,193	$16,989	$15,797	$18,327	$17,130	$15,938	$14,743	$12,881	$11,599
Revenues:										
Levy of insurance carriers and self-insured employers				3,725						
Interest income	42	32	31	28	26	31	28	27	25	21
Other										
Total Forecasted Cash Balance and Revenues Before Expenses	19,416	18,225	17,020	19,550	18,353	17,161	15,966	14,770	12,906	11,620
Expenses:										
Workers' Compensation Payments:										
Benefit adjustment	536	536	536	536	536	536	536	1,124	557	5,057
Secondary injury	500	500	500	500	500	500	500	550	550	550
Defaulting employers	46	46	46	46	46	46	46	51	51	51
Total disability	30	30	30	30	30	30	30	33	33	33
Other	44	44	44	44	44	44	44	49	49	49
Other Expenses:										
Inter/intra-department reimbursed costs/others	67	80	67	67	67	67	67	82	67	67
Total Forecasted Expenses	1,223	1,236	1,223	1,223	1,223	1,223	1,223	1,889	1,307	5,807
Forecasted cash balance - end of month	$18,193	$16,989	$15,797	$18,327	$17,130	$15,938	$14,743	$12,881	$11,599	$5,813
Levy of assessments:										
Self-insured employers				$3,725						
Insurance carriers										

(1) Does not include additional levy assessment due from insurance carriers in March 2006.

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 for the Period from August 1, 2004 through March 31, 2006

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 December 31 cash balance and levy of assessments for the forecasted period. Accordingly, the presentation reflects its judgment as of May 2, 2005, 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 and this report were 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 3.2% levy on an estimated $285,000,000 of gross premiums to be written in 2004. The estimate of gross premium was based on management's knowledge and belief. The self-insured employers' assessment for September 2005, was based on 29% of the total levies to be assessed in 2005.

STATE OF HAWAII
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS
WORKERS' COMPENSATION SPECIAL COMPENSATION FUND
Summary of Significant Assumptions and Accounting Policies - Cash Basis for the Period from August 1, 2004 through March 31, 2006

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 (2% 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. This payment, authorized by Hawaii Revised Statutes section 386-35, provides economic relief to permanently 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 increase in benefit adjustment payments is estimated to be a 10% increase for new claims and a projected reimbursement to insurance carriers of approximately $4,500,000 in May 2005 and March 2006.

6. Inter/Intra-Department/Agency Reimbursed Costs

The attorney general's reimbursed costs are forecasted at approximately $45,000 per month. Other facilitator unit and administrative support reimbursed costs are forecasted at approximately $22,000 per month.