

U.S. Department of Labor
Office of Inspector General—Office of Audit

**EMPLOYMENT STANDARDS
ADMINISTRATION**



**DISTRICT OF COLUMBIA WORKMEN'S
COMPENSATION ACT SPECIAL FUND
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

September 30, 2004 and 2003

This report was prepared by M.D. Oppenheim & Company, P.C., under contract to the U.S. Department of Labor, Office of Inspector General, and by acceptance, it becomes a report of the Office of Inspector General.

Eeliot P. Lewis

Assistant Inspector General for Audit

Date Issued: September 30, 2005
Report Number: 22-05-011-04-432

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Independent Auditors' Report

Ms. Victoria Lipnic, Assistant Secretary
Employment Standards Administration
U.S. Department of Labor

The *Chief Financial Officers Act of 1990* (CFO Act) requires agencies to report annually to Congress on their financial status and any other information needed to fairly present the agencies' financial position and results of operations. The District of Columbia Workmen's Compensation Act Special Fund (the Fund) is included in the U.S. Department of Labor (DOL) annual financial statements issued to meet the CFO Act reporting requirements. In addition, the District of Columbia Workmen's Compensation Act requires that an annual report be made to Congress on the financial status of the Fund.

The objectives of our audit are to express an opinion on the fair presentation of the Fund's financial statements, obtain an understanding of the Fund's internal control, and test compliance with laws and regulations that could have a direct and material effect on the financial statements.

We have audited the balance sheet of the Fund as of September 30, 2004 and the related statements of net cost, changes in net position, budgetary resources, and financing for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit. The Fund's financial statements as of September 30, 2003 were audited by the U.S. Department of Labor, Office of Inspector General, whose report dated March 5, 2004, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements.



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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.

Opinion on Financial Statements

In our opinion the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net position of the Fund as of September 30, 2004; and the net cost, changes in net position, budgetary resources, and reconciliation of net cost to budgetary resources for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Accompanying Information

Our audit was conducted for the purpose of forming an opinion on the Fund's financial statements taken as a whole. The information included in the Management Discussion and Analysis section of the Fund's annual financial statements is not a required part of the principal financial statements. The information is required by the Federal Accounting Standards Advisory Board and OMB Bulletin 01-09. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the information. However, we did not audit the information and express no opinion on it.

Report on Internal Control

In planning and performing our audit, we considered the Fund's internal control over financial reporting by obtaining an understanding of the Fund's internal control, determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our

judgment, could adversely affect the agency's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may, nevertheless, occur and not be detected. We noted a certain matter, discussed in the following paragraphs, involving the internal control and its operations that we consider to be a reportable condition. However, the reportable condition is not believed to be a material weakness. With respect to internal control related to performance measures included in the Management Discussion and Analysis, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions as required by OMB Bulletin No. 01-02. Our procedures were not designed to provide assurance on internal control over reported performance measures, and accordingly, we do not provide an opinion on such controls.

Current Year Reportable Condition

The preparation and review of the financial statements of the Fund involves three offices within the U.S. Department of Labor. The Fund's financial statements are prepared by ESA's Office of Management, Administration, and Planning, Division of Financial Management with assistance from ESA's Office of Workers' Compensation Programs, Division of Longshore and Harbor Workers' Compensation. The report is then submitted to the Office of the Chief Financial Officer, Division of Financial Statements for review before being transmitted to the Office of Inspector General for audit.

The FY 2004 financial statements contained accounting (summarization), and presentation errors. The Management Discussion and Analysis, financial statements, and notes did not include all of the disclosures as required by accounting principles generally accepted in the United States of America. Without adequate controls over the financial reporting process, management cannot ensure that financial reports are prepared accurately and timely in accordance with applicable accounting standards.

We recommend that the Assistant Secretary for Employment Standards ensure that controls are developed, implemented and documented that will ensure accurate and timely preparation of future financial statements.

In response to the issues noted, ESA management made all significant corrections to the report and will implement procedures to strengthen the FY 2005 financial statement preparation process. This finding is resolved and open pending the results of the implementation of the proposed procedures in FY 2005.

Report on Compliance with Laws and Regulations

The management of the Fund is responsible for complying with laws and regulations applicable to the Fund. As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin No. 01-02. We limited our tests of compliance to these provisions, and we did not test compliance with all laws and regulations applicable to the Fund. 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 of compliance with laws and regulations, described in the preceding paragraph, disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 01-02.

This report is intended solely for the information of the management of the District of Columbia Workmen's Compensation Act Special Fund and U.S. Department of Labor, the Office of Management and Budget, and the Congress, and is not intended to be and should not be used by anyone other than these specified parties.

M.D. Oppenheim & Company, P.C.

April 19, 2005

**U. S. DEPARTMENT OF LABOR
EMPLOYMENT STANDARDS ADMINISTRATION**

**DISTRICT OF COLUMBIA WORKMEN'S
COMPENSATION ACT SPECIAL FUND
FINANCIAL STATEMENTS
SEPTEMBER 30, 2004 AND 2003**

**Office of Management, Administration and Planning
Division of Financial Management**

**DISTRICT OF COLUMBIA WORKMEN'S
COMPENSATION ACT SPECIAL FUND**

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**DISTRICT OF COLUMBIA WORKMEN'S
COMPENSATION ACT SPECIAL FUND**

ACRONYMS

DCCA	District of Columbia Workmen's Compensation Act Special Fund
DLHWC	Division of Longshore and Harbor Workers' Compensation
DOL	Department of Labor
ESA	Employment Standards Administration
FASAB	Federal Accounting Standards Advisory Board
FMFIA	Federal Managers' Financial Integrity Act
FY	Fiscal Year
JFMIP	Joint Financial Management Improvement Project
LHWCA	Longshore Harbor Workers' Compensation Act
OMB	Office of Management and Budget
OWCP	Office of Workers' Compensation Programs
U.S.C.	United States Code

U. S. DEPARTMENT OF LABOR
EMPLOYMENT STANDARDS ADMINISTRATION
District of Columbia Workmen's
Compensation Act Special Fund

SECTION I
MANAGEMENT DISCUSSION
AND ANALYSIS

Fiscal Year 2004
Financial Statements

**DISTRICT OF COLUMBIA WORKMEN'S
COMPENSATION ACT SPECIAL FUND**

**MANAGEMENT DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2004**

MISSION AND ORGANIZATIONAL STRUCTURE

Two Special Funds are administered by the Office of Workers' Compensation Program (OWCP) under section 44 of the Longshore Harbor Workers' Compensation Act (LHWCA); the Longshore Act Special Fund created under the original Act in 1927 and the Special Fund under the District of Columbia Workmen's Compensation Act of 1928 (DCCA). These Funds were established for the primary purpose of equitably distributing among all employers the liabilities associated with second injury claims (a "second injury" is an injury to a worker which, in combination with an existing permanent partial impairment, results in the worker's increased permanent disability or death).

Organizationally the DCCA Fund is administered by the Employment Standards Administration (ESA) Division of Longshore and Harbor Workers' Compensation program (DLHWC) whose mission is to effectively administer a program of compensation and medical benefits to covered workers who are injured on the job or suffer from occupational disease. The DLHWC has direct responsibility for all aspects of the administration of the Fund.

The Fund supports the program mission by providing compensation, and in certain cases, medical care payments to District of Columbia employees for work related injuries or death. Effective July 26, 1982, the District of Columbia became responsible for administration and operation of a separate special fund to cover post July 26, 1982, injury cases.

The DCCA provides medical benefits, compensation for lost-wages and rehabilitation services for job-related injuries, diseases or death of certain private-sector workers in the District of Columbia. Generally, benefits are paid directly from private funds by an authorized self-insured employer or through an authorized insurance carrier. Cases meeting the requirements of the Longshore and Harbor Workers' Compensation statute as extended to the District of Columbia Act of 1928 are paid from the Fund comprised primarily of employer contributions (assessments) and administered by the DLHWC. In FY 2004, 696 workers (customers) received compensation benefits from the Fund.

Additionally, the District of Columbia Workmen's Compensation Act [Section 10(h)] provides annual wage increase compensation (cost of living adjustments). Fifty percent of this annual wage increase for pre-1972 compensation cases is paid by Federal appropriated funds, and fifty percent is paid by the Fund through the annual assessment. Appropriated funding for 10(h) is not reflected in the accompanying financial statements.

Although the Fund is administered by the Secretary of Labor, the U.S. Treasury is the Custodian, holding the funds in trust. The Fund is **not** property of the United States, but can **only** be disbursed as specified in Section 44(i) of the Longshore Act. Administrative services for operating the Fund are provided by the ESA through direct Federal Appropriations. Appropriated funding for administrative services is not reflected in the accompanying financial statements.

FINANCIAL HIGHLIGHTS

The majority of the revenue of the Fund is generated through annual recurring assessments paid by self-insured employers and insurance carriers and totaled \$10,351,670 in FY 2004. This compares with assessment revenue of \$9,509,942 for FY 2003. In addition, investment income for the Fund was \$30,582 for FY 2004 compared to \$48,126 for FY 2003. The average interest rate earned during FY 2004 was 1.12 percent compared to 1.21 percent for FY 2003.

**DISTRICT OF COLUMBIA WORKMEN'S
COMPENSATION ACT SPECIAL FUND**

**MANAGEMENT DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2004**

FINANCIAL HIGHLIGHTS - Continued

The Fund's costs remained relatively stable compared to FY 2003; \$10,816,252 for FY 2004 compared to \$11,039,055 for FY 2003. Proceeds of the Fund are used for payments under: section 8(f) for second injury claims; section 10(h) for initial and subsequent annual adjustments in compensation for permanent total disability or related death from injuries which occurred prior to the effective date of the 1972 LHWCA amendments; sections 39(c) and 8(g) for the procurement of medical and vocational rehabilitation services for permanently disabled employees and to provide a maintenance allowance to workers undergoing rehabilitation; section 18(b) for compensation to injured workers in cases of employer default; and section 7(e) for the cost of certain medical examinations.

PERFORMANCE GOALS AND RESULTS

The DCCA performance is included in the consolidated performance measures for the Employment Standards Administration (ESA). ESA supports the Department of Labor's **Strategic Goal 2 - *A Secure Workforce***. This goal broadly promotes the economic security of workers and families. In particular, the DLHWC program supports **Outcome Goal 2.2 - *To Protect Worker Benefits***. The Department of Labor plays a large role in ensuring that worker benefits are protected and that employers administer benefit programs in an appropriate way. The DCCA Fund administered under LHWCA program assists in meeting this outcome goal. In order to accomplish this outcome LHWCA established the following performance goal for FY 2004:

Reduce by four percent over the FY 2002 baseline the average time required to resolve disputed issues in Longshore and Harbor Worker's Compensation Program contested cases.

This target was achieved, with 260 days as the average number of days to resolve disputed issues, thirteen days below the target of 273 days. The objective of this indicator is to quickly resolve disputes, enabling earlier benefit delivery and reducing litigation costs. In FY 2004 the average time to resolve disputed issues improved. Intervention when disputes began along with a variety of tools used to resolve them created confidence in the program's role as a mediator between injured worker and employer, and highlighted its efforts to become more customer-centered.

Management has focused on timeliness and improved amicability in handling contested cases. Other program reforms ensure proper data collection and reporting, and improved communications with injured workers, employers and insurers. In FY 2005, these approaches will intensify. Additional training of claims staff will continue to improve mediation skills. The indicator for FY 2005 is to continue to reduce the average proceeding time with a FY 2005 target of 268

INTERNAL CONTROLS AND SYSTEMS

The Longshore and Harbor Workers' Compensation Division's Branch of Financial Management and Insurance is a very small unit comprised of six employees and one supervisor, all working in very close proximity to each other. Much of the oversight, evaluation, monitoring, and control and almost all of the supervisory activity is informal, done on a face-to-face basis. Similarly, each of the district offices is in itself a small unit, operating in the same fashion as the Branch of Financial Management and Insurance.

**DISTRICT OF COLUMBIA WORKMEN'S
COMPENSATION ACT SPECIAL FUND**

**OVERVIEW OF THE REPORTING ENTITY
SEPTEMBER 30, 2004**

INTERNAL CONTROLS AND SYSTEMS - Continued

Cases paid by the Special Fund are paid as a result of a formal Compensation Order issued by a District Director or Administrative Law Judge, setting forth precisely what payment is due and to whom the payment is due. Each new case coming in for Special Fund payment is prepared and reviewed by a total of five different employees before payment is made, thus insuring accuracy.

Monthly cash statements, monthly case management reports, quarterly review processes, biweekly payment summaries, the SF-224 report and statement of differences all provide current, reliable, and accurate information.

Management communicates all procedural, policy, and operating goals to staff by means of weekly staff meetings, a written procedure manual, frequent e-mail communication, and frequent individual communications regarding changes, problems and issues.

KNOWN RISKS AND UNCERTAINTIES

The DCCA Fund is assessed one year at a time for current expenses. There is no reserve for future Fund obligations. In keeping with the requirement of section 44 of the Longshore Act, obligations are paid as they are incurred. Benefit payments are concentrated among a relatively few. For example, the top 9 carriers/self-insurers alone pay over 63% of District of Columbia assessments. Taken together, these two factors could indicate future problems if one or more of the largest payers become insolvent and unable to pay their assessment obligations. Temporary collection issues could result, necessitating special, unscheduled assessments or other actions to keep the Special Fund funded for current liabilities.

In addition, an insurance company group that is currently insolvent and being operated by the State of Illinois Insurance Department is responsible for nearly 20% of the total District of Columbia assessment. If these carriers go into liquidation and stop paying their assessment, this would precipitate a collection crisis for the District of Columbia assessment. This situation is exacerbated by the fact that since the District of Columbia Workmen's Compensation Act of 1928 has been repealed and the DC Special Fund only assesses based on payments in cases that arose prior to July 26, 1982, the annual Special Fund assessment is assessed against a shrinking base of industry payments.

LIMITATIONS OF THE FINANCIAL STATEMENTS

The following limitations are part of the financial statements:

- The financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of the Chief Financial Officers Act of 1990, U.S.C. 3515 (b).
- While the statements have been prepared from the books and records of the Fund in accordance with the formats prescribed by OMB, the statements are different from the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.
- The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity, that liabilities cannot be liquidated without the enactment of an appropriation, and that the payment of all liabilities other than for contracts can be abrogated by the sovereign entity.

U. S. DEPARTMENT OF LABOR
EMPLOYMENT STANDARDS ADMINISTRATION
District of Columbia Workmen's
Compensation Act Special Fund

SECTION II
FINANCIAL STATEMENTS

Fiscal Year 2004 and 2003
Financial Statements

DISTRICT OF COLUMBIA WORKMEN'S COMPENSATION ACT SPECIAL FUND BALANCE SHEETS		
As of September 30, 2004 and 2003		
	<u>2004</u>	<u>2003</u>
ASSETS		
Intragovernmental assets		
Funds with U.S. Treasury (Note 2)	\$ 2,267	\$ 4,259
Investments (Note 3)	<u>5,006,944</u>	<u>4,897,672</u>
Total intragovernmental assets	5,009,211	4,901,931
Accounts receivable, net of allowance (Note 4)	<u>279,659</u>	<u>103,688</u>
Total assets	<u><u>\$ 5,288,870</u></u>	<u><u>\$ 5,005,619</u></u>
LIABILITIES AND NET POSITION		
Liabilities		
Accrued benefits payable	\$ 282,550	\$ 175,279
Deferred revenue	2,761,461	2,217,721
Other liabilities (Note 5)	<u>1,217,390</u>	<u>1,151,150</u>
Total liabilities	4,261,401	3,544,150
Net position		
Cumulative results of operations	<u>1,027,469</u>	<u>1,461,469</u>
Total liabilities and net position	<u><u>\$ 5,288,870</u></u>	<u><u>\$ 5,005,619</u></u>
The accompanying notes are an integral part of these statements.		
II - 1		

**DISTRICT OF COLUMBIA WORKMEN'S
COMPENSATION ACT SPECIAL FUND**

**STATEMENTS OF NET COST
For the Years Ended September 30, 2004 and 2003**

	<u>2004</u>	<u>2003</u>
SPECIAL FUND NET COST OF OPERATIONS		
With the public		
Second injury compensation, Section 8(f)	\$ 9,978,628	\$ 10,192,692
Wage increase compensation, Section 10(h)	648,264	665,698
Compensation payment for self-insurer in default, Section 18(b)	<u>189,360</u>	<u>180,665</u>
Net cost of operations	<u>\$ 10,816,252</u>	<u>\$ 11,039,055</u>

The accompanying notes are an integral part of these statements.

**DISTRICT OF COLUMBIA WORKMEN'S
COMPENSATION ACT SPECIAL FUND**

**STATEMENTS OF CHANGES IN NET POSITION
For the Years Ended September 30, 2004 and 2003**

	<u>2004</u>	<u>2003</u>
CUMULATIVE RESULTS OF OPERATIONS		
Cumulative results of operations, beginning	\$ 1,461,469	\$ 2,942,456
Budgetary financing sources:		
Non-exchange revenues:		
Investment interest	30,582	48,126
Assessments	<u>10,351,670</u>	<u>9,509,942</u>
Total non-exchange revenues	10,382,252	9,558,068
Net cost of operations	<u>(10,816,252)</u>	<u>(11,039,055)</u>
Net position, end of period	<u>\$ 1,027,469</u>	<u>\$ 1,461,469</u>

The accompanying notes are an integral part of these statements.

**DISTRICT OF COLUMBIA WORKMEN'S
COMPENSATION ACT SPECIAL FUND**

**STATEMENTS OF BUDGETARY RESOURCES
For the Years Ended September 30, 2004 and 2003**

	<u>2004</u>	<u>2003</u>
BUDGETARY RESOURCES (Note 6)		
Budgetary authority:		
Appropriations received	\$ 10,803,721	\$ 9,639,458
Unobligated balance:		
Beginning of period	<u>4,723,019</u>	<u>5,946,032</u>
Total budgetary resources	\$ <u>15,526,740</u>	\$ <u>15,585,490</u>
STATUS OF BUDGETARY RESOURCES		
Obligations incurred (Note 6)		
Direct	\$ 10,807,202	\$ 10,862,471
Unobligated balances - available		
Other available	<u>4,719,538</u>	<u>4,723,019</u>
Total status of budgetary resources	\$ <u>15,526,740</u>	\$ <u>15,585,490</u>
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS (Note 6)		
Obligated balance, net, beginning	\$ 175,278	\$ 154,153
Obligated balance, net, ending		
Accounts payable	282,551	175,278
Outlays:		
Disbursements	<u>10,699,924</u>	<u>10,841,346</u>
Net outlays	\$ <u>10,699,924</u>	\$ <u>10,841,346</u>

The accompanying notes are an integral part of these statements.

**DISTRICT OF COLUMBIA WORKMEN'S
COMPENSATION ACT SPECIAL FUND**

**STATEMENTS OF FINANCING
For the Years Ended September 30, 2004 and 2003**

	<u>2004</u>	<u>2003</u>
RESOURCES USED TO FINANCE ACTIVITIES		
Obligations incurred	\$ 10,807,202	\$ 10,862,471
Total resources used to finance activities	<u>10,807,202</u>	<u>10,862,471</u>
COMPONENTS OF THE NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD		
Components not requiring or Generating Resources		
Revaluation of assets and liabilities	4,812	0
Benefit overpayments	<u>4,238</u>	<u>176,584</u>
Total components of net cost of operations that will not Require or generate resources in the current period	<u>9,050</u>	<u>176,584</u>
Net cost of operations	<u>\$ 10,816,252</u>	<u>\$ 11,039,055</u>

The accompanying notes are an integral part of these statements.

U. S. DEPARTMENT OF LABOR
EMPLOYMENT STANDARDS ADMINISTRATION
District of Columbia Workmen's
Compensation Act Special Fund

SECTION III
NOTES TO THE
FINANCIAL STATEMENTS

Fiscal Year 2004 and 2003
Financial Statements

**DISTRICT OF COLUMBIA WORKMEN'S
COMPENSATION ACT SPECIAL FUND**

**NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2004 and 2003**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies which have been followed by the Fund in preparing the accompanying financial statements are set forth below.

A. Reporting Entity

These financial statements present the financial position, net cost of operations, changes in net position, budgetary resources and financing activities of the District of Columbia Workmen's Compensation Act Special Fund (Fund). The Fund is administered by the Employment Standards Administration (ESA) which is an agency within the United States Department of Labor. Within ESA, the Division of Longshore and Harbor Workers' Compensation has direct responsibility for administration of the Fund. The Fund offers compensation, and in certain cases, medical care payments to District of Columbia employees for work related injuries or death. Effective July 26, 1982, the District of Columbia Workmen's Compensation Act was amended whereby the Mayor of the District of Columbia became responsible for administration and operation of a separate special fund to cover post July 26, 1982, injury cases.

Additionally, the District of Columbia Workmen's Compensation Act Section 10(h) provides annual wage increase compensation (cost of living adjustments). Fifty percent of this annual wage increase for pre-1972 compensation cases is paid by Federal appropriated funds and fifty percent is paid by the Fund through the annual assessment. Appropriated funding for 10(h) is not reflected in the accompanying financial statements. Also, these financial statements do not include the Special Fund administered by the Mayor of the District of Columbia for injury cases occurring after July 26, 1982.

B. Basis of Accounting and Presentation

These financial statements present the financial position, net cost of operations, changes in net position, budgetary resources and financing and activities of the Fund, in accordance with accounting principles generally accepted in the United States of America and the form and content requirements of OMB Bulletin 01-09. These financial statements have been prepared from the books and records of the Fund. These financial statements are not intended to present, and do not present, the full cost of the District of Columbia Workmen's Compensation (DCCA) program administered under the Longshore and Harbor Workers' Compensation Act Program (Longshore Program). In addition to the Fund costs presented in these statements, the full cost of the DCCA portion of the Longshore Program would include certain direct costs of ESA in the form of salaries and expenses for administration of the Longshore Program and allocated costs of ESA and other DOL agencies incurred in support of the Longshore Program. The full cost of the DCCA portion of the Longshore Program is included in the Consolidated Financial Statements of the U.S. Department of Labor.

Accounting principles generally accepted in the United States of America encompass both accrual and budgetary transactions. Under accrual accounting, revenues are recognized when earned, and expenses are recognized when a liability is incurred. Budgetary accounting facilitates compliance with legal constraints on, and controls over, the use of federal funds. These financial statements are different from the financial reports, also prepared for the Fund pursuant to OMB directives, used to monitor the Fund's use of budgetary resources.

**DISTRICT OF COLUMBIA WORKMEN'S
COMPENSATION ACT SPECIAL FUND**

**NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2004 and 2003**

C. Funds with U.S. Treasury

The Fund does not maintain cash in commercial bank accounts. Cash receipts and disbursements are processed by the U.S. Treasury. The Funds with U.S. Treasury are trust funds that are available to pay current liabilities and finance authorized purchase commitments.

D. Investments

Investments in U.S. Government securities are reported at cost, net of unamortized premiums or discounts, which approximates market value. Premiums or discounts are amortized on a straight-line basis, which approximates the effective interest method. The Fund's intent is to hold investments to maturity, unless they are needed to finance claims or otherwise sustain the operations of the Fund. No provision is made for unrealized gains or losses on these securities because, in the majority of cases, they are held to maturity.

E. Accounts Receivable, Net of Allowance

The amounts due as receivables are stated net of an allowance for uncollectible accounts. The allowance is estimated based on past experience in the collection of the receivables and an analysis of the outstanding balances. Also included as benefit overpayments receivable are Fund benefit overpayments made to individuals who were determined ineligible to receive benefits.

F. Accrued Benefits Payable

The District of Columbia Workmen's Compensation Special Fund provides compensation and medical benefits for work related injuries to employees of the District of Columbia. The Fund recognizes a liability for disability benefits payable to the extent of unpaid benefits applicable to the current period.

G. Assessment Overpayment by Carriers

Assessment overpayments are current liabilities and are to be refunded upon carrier request or applied to reduce future carrier assessments.

H. Deferred Revenue

Deferred revenues represent the unearned assessment revenues as of September 30, the Fund's accounting year end. The annual assessments cover a calendar year and, accordingly, the portion extending beyond September 30 has been deferred.

I. Financing Sources Other Than Exchange Revenue

Non-exchange revenues arise from the Federal government's power to demand payments from and receive donations from the public. Non-exchange revenues are recognized by the Fund for assessments levied against the public and interest income from investments.

The Fund's primary source of revenue is annual assessments levied on insurance carriers and self-insured employers. The Fund also receives interest on Fund investments and on Federal funds in the possession of non-Federal entities.

**DISTRICT OF COLUMBIA WORKMEN'S
COMPENSATION ACT SPECIAL FUND**

**NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2004 and 2003**

NOTE 2 - FUNDS WITH U.S. TREASURY

Funds with the U.S. Treasury at September 30, 2004 and 2003 consisted of cash deposits of \$2,267 and \$4,259 respectively. There was \$141 in cash deposits at September 30, 2004 and \$13 in cash deposits at September 30, 2003 being held as security by authority of Section 32 of the Longshore and Harbor Workers' Compensation Act in the Funds with the U.S. Treasury balance. Section 32 funds relate to the default of self-insured employers and are available for payment of compensation and medical benefits to covered employees of the defaulted companies.

Funds with U.S. Treasury at September 30, 2004 consisted of the following:

	Entity Assets					
	Unobligated Balance Available	Unobligated Balance Unavailable	Obligated Balance Not Yet Disbursed	Total Entity Assets	Non-entity Assets	Total
Special Fund	\$ <u>0</u>	\$ <u>0</u>	\$ <u>2,267</u>	\$ <u>2,267</u>	\$ <u>0</u>	\$ <u>2,267</u>

Funds with U.S. Treasury at September 30, 2003 consisted of the following:

	Entity Assets					
	Unobligated Balance Available	Unobligated Balance Unavailable	Obligated Balance Not Yet Disbursed	Total Entity Assets	Non-entity Assets	Total
Special Fund	\$ <u>0</u>	\$ <u>0</u>	\$ <u>4,259</u>	\$ <u>4,259</u>	\$ <u>0</u>	\$ <u>4,259</u>

NOTE 3 - INVESTMENTS

Investments at September 30, 2004 and 2003 consisted of the following:

	September 30, 2004			
	Face Value	Discount	Net Value	Market Value
Intragovernmental securities Marketable	\$ <u>5,020,000</u>	\$ <u>(13,056)</u>	\$ <u>5,006,944</u>	\$ <u>5,006,944</u>
	September 30, 2003			
	Face Value	Discount	Net Value	Market Value
Intragovernmental securities Marketable	\$ <u>4,903,000</u>	\$ <u>(5,328)</u>	\$ <u>4,897,672</u>	\$ <u>4,897,672</u>

**DISTRICT OF COLUMBIA WORKMEN'S
COMPENSATION ACT SPECIAL FUND**

**NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2004 and 2003**

NOTE 3 – INVESTMENTS – Continued

Investments of \$50,400 and \$50,000 for 2004 and 2003 are being held as security by authority of Section 32 of the Longshore and Harbor Workers' Compensation. Section 32 investments relate to the default of self-insured employers and are restricted. These investments are available for payment of compensation and medical benefits to covered employees of the defaulted companies. Investments at September 30, 2004 and 2003 consist of short-term U.S. Treasury Bills and are stated at amortized cost which approximates market. Investments at September 30, 2004, bear interest rates varying from 1.32% to 1.79% compared to rates varying from 0.90% to 0.96% for 2003. Interest rates on securities bought and sold during fiscal year 2004 ranged from 0.89% to 1.79% compared to 0.83% to 1.85% for fiscal year 2003.

NOTE 4 - ACCOUNTS RECEIVABLE, NET

Accounts receivable at September 30, 2004 and 2003 consisted of the following:

	<u>2004</u>	<u>2003</u>
Entity assets		
Benefit overpayments	\$ 19,250	\$ 23,488
Assessments receivable	361,032	91,939
Less: allowance for doubtful accounts	<u>(100,623)</u>	<u>(11,739)</u>
Total accounts receivable, net	<u>\$ 279,659</u>	<u>\$ 103,688</u>

Assessments receivable represent the unpaid annual assessments from the current and prior years. Accounts receivable from overpayments to claimants arise primarily from amended compensation orders and corrections of payment computations. These receivables are being primarily recovered by partial and total withholding of benefit payments.

Changes in the allowance for doubtful accounts during 2004 and 2003 consisted of the following:

	<u>September 30, 2004</u>				
	<u>Allowance 9-30-03</u>	<u>Write Offs</u>	<u>Revenue Adjustment</u>	<u>Bad Debt</u>	<u>Allowance 9-30-04</u>
Entity assets					
Benefit overpayments	\$ (7,047)	\$ -	\$ -	\$ 2,235	\$ (4,812)
Assessment receivable	<u>(4,692)</u>	<u>101,531</u>	<u>(185,603)</u>	<u>(7,047)</u>	<u>(95,811)</u>
	<u>\$ (11,739)</u>	<u>\$ 101,531</u>	<u>\$ (185,603)</u>	<u>\$ (4,812)</u>	<u>\$ (100,623)</u>
	<u>September 30, 2003</u>				
	<u>Allowance 9-30-02</u>	<u>Write Offs</u>	<u>Revenue Adjustment</u>	<u>Bad Debt</u>	<u>Allowance 9-30-03</u>
Entity assets					
Benefit overpayments	\$ (3,856)	\$ -	\$ -	\$ (3,191)	\$ (7,047)
Assessment receivable	<u>(895)</u>	<u>41,564</u>	<u>(41,505)</u>	<u>(3,856)</u>	<u>(4,692)</u>
	<u>\$ (4,751)</u>	<u>\$ 41,564</u>	<u>\$ (41,505)</u>	<u>\$ (7,047)</u>	<u>\$ (11,739)</u>

**DISTRICT OF COLUMBIA WORKMEN'S
COMPENSATION ACT SPECIAL FUND**

**NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2004 and 2003**

NOTE 5 – OTHER LIABILITIES

Other liabilities at September 30, 2004 and 2003 consisted of the following current liabilities:

	<u>2004</u>	<u>2003</u>
Other liabilities		
Assessment overpayments by carriers	<u>\$ 1,166,849</u>	<u>\$1,101,137</u>
Defaulted employer liability		
Held in investments	50,400	50,000
Held in cash	<u>141</u>	<u>13</u>
	<u>50,541</u>	<u>50,013</u>
 Total other liabilities	 <u>\$ 1,217,390</u>	 <u>\$ 1,151,150</u>

Assessment overpayments are to be refunded upon request or applied to reduce future assessments.

Defaulted employer liability relates to the funds and investments held by the District of Columbia Special Fund which are being held as security by authority of Section 32 of the Act. These funds and investments are available for compensation and medical benefits to covered employees of the defaulted companies. Management estimates that these funds and investments held will be sufficient to cover the future benefits associated with the covered employees.

Assessment overpayments by carriers represent overpayments received from carriers on annual assessments from the current and prior years. These overpayments result from carrier reporting errors, adjustments to the assessment and mergers and consolidations among the assessed carriers. In FY 2002 the overpayment amount was \$2,357,793. The majority of this overpayment amount resulted from reporting errors by two of the participating insurance carriers, relating to assessments for calendar year 2002 that were incorrectly allocated among the carriers. The carriers causing this error were over billed by \$1,963,734, and the remaining carriers were under billed collectively by the same amount. Since the carriers' error in reporting were discovered after the assessment process for calendar year 2002 was closed, this allocation error was corrected in the calendar year 2003 assessment process.

NOTE 6 – STATEMENT OF BUDGETARY RESOURCES

A. Apportionment Categories of Obligations Incurred

Obligations incurred reported on the Statement of Budgetary Resources in FY 2004 and FY 2003 consisted of the following:

	<u>2004</u>	<u>2003</u>
Direct Obligations		
Exempt from apportionment	<u>\$ 10,807,202</u>	<u>\$ 10,862,471</u>

**DISTRICT OF COLUMBIA WORKMEN'S
COMPENSATION ACT SPECIAL FUND**

**NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2004 and 2003**

NOTE 6 – STATEMENT OF BUDGETARY RESOURCES - Continued

B. Explanation of Differences Between the Statement of Budgetary Resources and the Budget of the United States Government

The Budget of the United States Government with actual amounts for the year ended September 30, 2004, has not been published as of the issue date of these financial statements. This document will be available in February 2005. In addition, the reconciliation of the Report of Budget Execution (SF133) and the Statement of Budgetary Resources will be performed in Fiscal Year 2005 after the Department receives the final SF133 reports from Trust Fund and allocated accounts.

A reconciliation of budgetary resources, obligations incurred and outlays, as presented in the Statement of Budgetary Resources to amounts included in the Budget of the United States Government for the year ended September 30, 2003 is shown below:

<u>(Dollars in Millions)</u>	<u>September 30, 2003</u>		
	<u>Budgetary Resources</u>	<u>Obligations Incurred</u>	<u>Outlays</u>
Statement of Budgetary Resources	\$ 16	\$ 11	\$ 11
Longshore and Harbor Workers Compensation	\$ 196	\$ 133	\$ 133
Budget of the United States Government	\$ 212	\$ 144	\$ 144