

# U.S. Department of Labor

Office of Inspector General—Office of Audit

## EMPLOYMENT STANDARDS ADMINISTRATION



## LONGSHORE AND HARBOR WORKERS' COMPENSATION ACT SPECIAL FUND FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

September 30, 2007 and 2006

This report was prepared by KPMG, LLP, 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.

A handwritten signature in blue ink that reads "Elliot P. Lewis".

Assistant Inspector General for Audit

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**LONGSHORE AND HARBOR WORKERS'  
COMPENSATION ACT SPECIAL FUND**

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**LONGSHORE AND HARBOR WORKERS'  
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**Acronyms**

AUP	Agreed Upon Procedures
DLHWC	Division of Longshore and Harbor Workers' Compensation
DOL	Department of Labor
ESA	Employment Standards Administration
FY	Fiscal Year
LHWCA	Longshore and Harbor Workers' Compensation Act
OMB	Office of Management and Budget
OWCP	Office of Workers' Compensation Programs
U.S.C.	United States Code

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**LONGSHORE AND HARBOR WORKERS'  
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Management's Discussion and Analysis

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**Mission and Organizational Structure**

The Longshore and Harbor Workers' Compensation Act (LHWCA) provides medical benefits, compensation for lost-wages and rehabilitation services for job-related injuries, diseases or death of private-sector workers in certain maritime and related employment. 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 are paid from the Fund comprised primarily of employer contributions (assessments) and administered by the DLHWC. In fiscal year 2007 and 2006, 4,728 and 4,888 injured workers and dependents received compensation benefits from the Fund.

The reporting entity is the Longshore and Harbor Workers' Compensation Act Special Fund (Fund). Organizationally the Fund is administered by the Employment Standards Administration (ESA), an agency within the United States Department of Labor. Within ESA, the Division of Longshore and Harbor Workers' Compensation (DLHWC) has direct responsibility for administration of the Fund. The Fund supports the program mission by providing compensation, and in certain cases, medical care payments to employees disabled from injuries which occurred on the navigable waters of the United States, or in adjoining areas used for loading, unloading, repairing, or building a vessel. The Fund also extends benefits to dependents if any injury resulted in the employee's death.

Additionally, the Longshore and Harbor Workers' 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. Appropriated funding is reflected in the Federal Employees Compensation Act's Special Benefit Fund.

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 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

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\$128,933,734 in fiscal year 2007. This compares with assessment revenue of \$138,856,619 for fiscal year 2006. During fiscal year 2007 and 2006, substantial recoveries were made for the Fund due to activities involving the application of Agreed Upon Procedures (AUP) on Forms LS-513, *Report of Payments* (used in the calculation of the annual assessment), and negotiation/collection of past due assessments. Equally important, the AUP activities have uncovered common industry reporting errors and other industry record-keeping mistakes which, when discovered, have been eliminated. The on-going AUP program recovered \$2,133,496 in fiscal year 2007 and \$6,545,834 in fiscal year 2006 for the Fund. These recoveries have and will continue to reduce carrier assessments and are reflected in the Assessments line on the Statement of Changes in Net Position.

Investment income for the Fund was \$2,077,374 for fiscal year 2007 compared to \$2,016,112 for fiscal year 2006. The average interest rate earned during fiscal year 2007 was 5.12% compared to 4.61% for fiscal year 2006. The Fund's costs remained relatively stable compared to fiscal year 2006; \$129,041,381 for fiscal year 2007 compared to \$133,693,455 for fiscal year 2006.

The sources of payments into the Fund include: fines and penalties levied under the Act; payments by employers of \$5,000 for each death case where there is no survivor entitled to the benefits; interest payments on Fund investments; and, by far the largest source, payment of annual assessments by self-insured employers and insurance carriers.

Proceeds of the Special 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 DLHWC supports the Department of Labor's Strategic Goal 4 – *Strengthened Economic Protections*. This goal broadly promotes the economic security of workers and families. In particular, the DLHWC program supports Performance Goal 4B – *Reduce the Consequences of Work-Related Injuries*. The Department of Labor plays a large role in



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ensuring that worker benefits are protected and that employers administer benefit programs in an appropriate way. The Longshore program assists in meeting this outcome goal by establishing the long term performance goal of reducing by 3% in three years over the fiscal year 2005 baseline of 253 days the average time required to resolve disputed issues in Longshore and Harbor Workers' Compensation Program contested cases. The objective of this indicator is to quickly resolve disputes, enabling earlier benefit delivery and reducing litigation costs. The fiscal year 2007 goal was: 248 days.

This target was achieved, with the program result of 230 days as the average number of days to resolve disputed issues, a 7.3% improvement over the target of 248 days.

Longshore management has focused on improving mediation skills and timeliness of district office intervention when disputes arose, with added emphasis on the accuracy of dispute tracking data. In FY 2008, these efforts will continue. The FY 2008 target will be 245 days.

**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. Unethical behavior is guarded against by carefully segregated duties, carefully assigned roles which are password protected, and by close supervision. 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.

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.

Statutes provide the formal standards where these are applicable, such as privacy statutes, cash handling procedures and conflict of interest regulations. All codes, statutes, and regulations governing the conduct of Federal employees apply to all Longshore Division employees.

Cases paid by the Special Fund are paid as a result of a formal Compensation Order

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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 ensuring accuracy.

Monthly cash basis 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.

**Known Risks and Uncertainties**

The Longshore Special Fund is the single largest payer of indemnity payments under the Longshore Act. It pays more than double the next largest payer of benefits. Although there are nearly 600 authorized insurance carriers and self-insured employers, benefit payments are concentrated among a relatively few. For example, the top 10 carriers and self-insurers alone pay almost one-half of total industry payments excluding Special Fund payments. If a major carrier or self-insurer fails, the remainder would face substantially increased assessments.

The Special Fund is assessed one year at a time for current expenses. There are no reserve funds for future Special Fund obligations. A series a high value single payment claims, for example a large number of hearing loss claims resolved in the private sector, could exceed the predictions used to quantify the assessment. A single, very large claim from an uninsured, bankrupt employer could have the same effect. Temporary collection issues could result, necessitating special, unscheduled assessments or other actions to keep the Special Fund funded for current liabilities.

There are currently no known examples of these risks and uncertainties.

**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).

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- 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.

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**KPMG LLP**  
2001 M Street, NW  
Washington, DC 20036

## Independent Auditors' Report

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

We have audited the accompanying balance sheets of the U.S. Department of Labor's (DOL) Longshore and Harbor Workers' Compensation Act Special Fund (the Fund) as of September 30, 2007 and 2006, and the related statements of net cost, changes in net position, and budgetary resources (hereinafter referred to as "financial statements") for the years then ended. The objective of our audits was to express an opinion on the fair presentation of these financial statements. In connection with our fiscal year 2007 audit, we also considered the Fund's internal controls over financial reporting and performance measures and tested the Fund's compliance with certain provisions of applicable laws and regulations that could have a direct and material effect on these financial statements.

### **SUMMARY**

As stated in our opinion on the financial statements, we concluded that the Fund's financial statements as of and for the years ended September 30, 2007 and 2006, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

In fiscal year 2007, the Fund changed its method of reporting the reconciliation of budgetary resources obligated to the net cost of operations, in accordance with Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*.

Our consideration of internal control over financial reporting resulted in the identification of significant deficiencies related to weaknesses in controls over accounts receivable and financial reporting. However, we do not consider these significant deficiencies to be material weaknesses.

We noted no deficiencies involving the design of the internal control over the existence and completeness assertions related to key performance measures.

The results of our tests of compliance with certain provisions of laws and regulations disclosed no instances of noncompliance or other matters that are



required to be reported under *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*.

The following sections discuss our opinion on the Fund's financial statements; our consideration of the Fund's internal controls over financial reporting and performance measures; our tests of the Fund's compliance with certain provisions of applicable laws and regulations; and management's and our responsibilities.

## **OPINION ON THE FINANCIAL STATEMENTS**

We have audited the accompanying balance sheets of the U.S. Department of Labor's Longshore and Harbor Workers' Compensation Act Special Fund as of September 30, 2007 and 2006, and the related statements of net cost, changes in net position, and budgetary resources for the years then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of Labor's Longshore and Harbor Workers' Compensation Act Special Fund as of September 30, 2007 and 2006, and its net costs, changes in net position, and budgetary resources for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1(b) to the financial statements, the Fund changed its method of reporting the reconciliation of budgetary resources obligated to the net cost of operations in fiscal year 2007, based on new reporting requirements under OMB Circular A-136.

The information in the Management's Discussion and Analysis is not a required part of the financial statements, but is supplementary information required by U.S. generally accepted accounting principles and OMB Circular No. A-136. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

Our consideration of the internal control over financial reporting was for the limited purpose described in the Responsibilities section of this report and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses.



A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Fund's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Fund's financial statements that is more than inconsequential will not be prevented or detected by the Fund's internal control over financial reporting. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Fund's internal control.

In our fiscal year 2007 audit, we consider the deficiencies described in Exhibit I to be significant deficiencies in internal control over financial reporting. However, we believe that none of the significant deficiencies described in Exhibit I are material weaknesses.

## **INTERNAL CONTROL OVER PERFORMANCE MEASURES**

Our tests of internal control over performance measures, as described in the Responsibilities section of this report, disclosed no deficiencies involving the design of the internal control over the existence and completeness assertions related to key performance measures.

## **COMPLIANCE AND OTHER MATTERS**

The results of our tests of compliance described in the Responsibilities section of this report disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* and OMB Bulletin No. 07-04.

\* \* \* \* \*

## **RESPONSIBILITIES**

### **Management's Responsibilities.**

Management is responsible for the financial statements, including:

- Preparing the financial statements in conformity with U.S. generally accepted accounting principles;
- Preparing the Management's Discussion and Analysis (including the performance measures);



- Establishing and maintaining effective internal control; and
- Complying with laws and regulations applicable to the Fund.

In fulfilling this responsibility, management is required to make estimates and judgments to assess the expected benefits and related costs of internal control policies.

**Auditors' Responsibilities.** Our responsibility is to express an opinion on the fiscal year 2007 and 2006 financial statements of the Fund based on our audits. We conducted our audits 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 OMB Bulletin No. 07-04. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits 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; and
- Evaluating the overall financial statement presentation.

We believe that our audits provide a reasonable basis for our opinion.

In planning and performing our fiscal year 2007 audit, we considered the Fund's internal control over financial reporting by obtaining an understanding of the Fund's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing 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 *Government Auditing Standards* and OMB Bulletin No. 07-04. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to express an opinion on the effectiveness of the Fund's internal control over financial reporting.





Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

As required by OMB Bulletin No. 07-04 in our fiscal year 2007 audit, with respect to internal control related to performance measures determined by management to be key and reported in the Management's Discussion and Analysis, we obtained an understanding of the design of internal controls relating to the existence and completeness assertions and determined whether these internal controls had been placed in operation. We limited our testing to those controls necessary to report deficiencies in the design of internal control over key performance measures in accordance with OMB Bulletin 07-04. However, our procedures were not designed to provide an opinion on internal control over reported performance measures and, accordingly, we do not provide an opinion thereon.

As part of obtaining reasonable assurance about whether the Fund's fiscal year 2007 financial statements are free of material misstatement, we performed tests of the Fund's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws and regulations applicable to the Fund. However, providing an opinion on compliance with laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The Fund's response to the findings identified in our audit are presented in Exhibit I. We did not audit the Fund's response and, accordingly, we express no opinion on it.

### **RESTRICTED USE**

This report is intended solely for the information and use of the United States Department of Labor's management, Office of Inspector General, OMB, the U.S. Government Accountability Office, and the U.S. Congress, and is not intended to be and should not be used by anyone other than these specified parties.

*KPMG LLP*

March 28, 2008

**Exhibit I**

**Controls Over Accounts Receivable and the Financial Reporting Process  
Need Improvement**

During the FY 2007, we noted the following related to accounts receivable and statements of net cost:

- Accounts receivable:
  - Accounts receivable in the draft Longshore financial statements were understated by \$121,341 as a result of three Longshore benefit overpayments being incorrectly reported as accounts receivable of the District of Columbia Workmen's Compensation Act Special Fund (DCCA) instead of the Longshore Special Fund;
  - For three out of 23 assessment billings tested, we noted that carriers submitted adjustments for \$43,785, and these adjustments were not reflected in account receivable, which resulted in an overstatement of accounts receivable of \$43,785 in the draft Longshore Special Fund financial statements;
  - Unapplied credits amounting to \$23,151 that should have been applied against the related outstanding receivable balances were not applied; and
  - The Fund calculates the allowance for doubtful accounts receivable as 25% of the outstanding accounts receivable balance; however, management could not provide support for the rate being used.

- Statements of net cost:

In preparing the statements of net cost, management incorrectly classified expenses of \$4,069,405 as rehabilitation services, section 39(c), instead of second injury compensation, section 8(f).

OMB Circular No. A-123, *Management's Responsibility for Internal Control*, states that "The agency head must establish controls that reasonably ensure that obligations and costs are in compliance with applicable laws; funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports . . ."

Per GAO's *Standards of Internal Control in the Federal Government*, "Internal control should generally be designed to assure that ongoing monitoring occurs in the course of normal operations. It is performed continually and is ingrained in the agency's operations. It includes regular management and supervisory

activities, comparisons, reconciliations, and other actions people take in performing their duties.”

These errors noted above were caused by a lack of a thorough management review of: journal entries; periodic accounts receivable analysis; the computation of the allowance for doubtful accounts; and the draft financial statements.

We recommend that the Fund:

1. Establish formal policies and procedures for periodically reviewing and analyzing outstanding accounts receivables and requiring more formal communication regarding credit and corrections between the program and accounting offices;
2. Establish and enforce more formal management review over journal entries, accounts receivable analysis, the allowance computation, and the draft financial statements; and
3. Develop a methodology for estimating the allowance for doubtful accounts that is based upon a documented analysis of historical collection and write-off trends. This analysis should be updated annually to take into consideration actual results and changes in the industry.

***Management's Response:***

1. Management agrees with the recommendation. Formal procedures establishing monthly review and analysis of outstanding receivables with formal communication of credit and corrections between the program and accounting offices will be implemented by June 30, 2008.
2. Management agrees with the recommendation. ESA has in place a formal process of review for all journal entries as well as the preparation of the Financial Statements. ESA will ensure that this process is strictly adhered to and that a thorough review takes place and includes all necessary signatures or initials. Additionally, ESA has established a procedure whereby the allowance amount for this fiscal year is split between the Assessment and Other Accounts Receivable balance. The total allowance amount is recorded in the “Allowance for Loss on Accounts Receivable,” 1319 account, while the assessment portion is recorded in the “Contra Revenue for Appropriations Receipts Income,” 5439 account, and the Other Accounts Receivable portion is recorded in the “Operating Expense – Bad Debt,” 6104 account. This accounting will allow for the proper classification in the year end Financial Statements.
3. Management agrees with the recommendation. Methodology for estimating the allowance for doubtful debts, based on historical collection and write-off trends, with annual updates to take into consideration actual results and changes in the industry, will be developed during the fiscal year, and implemented by September 30, 2008.

***Auditors' Response:***

Based on management's response, we consider these recommendations **resolved and open.**

**LONGSHORE AND HARBOR WORKERS'  
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Balance Sheets

September 30, 2007 and 2006

<b>Assets</b>	<b>2007</b>	<b>2006</b>
Intra-governmental assets:		
Funds with U.S. Treasury (note 2)	\$ 153,564	154,036
Investments (note 3)	69,979,000	73,146,000
Accounts receivable (Note 4)	15,512	10,220
Total intra-governmental assets	70,148,076	73,310,256
Accounts receivable, net of allowance (note 4)	3,802,861	2,431,102
Total assets	\$ 73,950,937	75,741,358
<b>Liabilities and Net Position</b>		
Liabilities:		
Due to OWCP (note 6)	\$ —	2,027,520
Accrued benefits payable	3,655,366	3,382,352
Deferred revenue	31,292,449	31,229,252
Other liabilities (note 5)	8,115,123	8,142,077
Total liabilities	43,062,938	44,781,201
Net position:		
Cumulative results of operations	30,887,999	30,960,157
Total liabilities and net position	\$ 73,950,937	75,741,358

See accompanying notes to financial statements.

**LONGSHORE AND HARBOR WORKERS'  
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Statements of Net Cost

Years ended September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Special fund net cost of operations:		
Second injury compensation, Section 8(f)	\$ 117,001,637	122,337,055
Wage increase compensation, Section 10(h)	1,796,225	1,810,952
Compensation payment for self-insurer in default, Section 18(b)	5,884,937	5,078,887
Rehabilitation services, Section 39 (c)	2,645,517	2,974,147
Medical services, Section 7(e)	—	1,750
Bankrupt self-insured employers	1,713,065	1,490,664
Net cost of operations	<u>\$ 129,041,381</u>	<u>133,693,455</u>

See accompanying notes to financial statements.

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Statements of Changes in Net Position

Years ended September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cumulative results of operations, beginning	\$ 30,960,157	25,808,401
Budgetary financing sources:		
Transfers in/out without reimbursement (note 6)	(2,041,885)	(2,027,520)
Non-exchange revenues:		
Interest	2,077,374	2,016,112
Assessments	<u>128,933,734</u>	<u>138,856,619</u>
Total non-exchange revenues	<u>131,011,108</u>	<u>140,872,731</u>
Total financing sources	128,969,223	138,845,211
Net cost of operations	<u>(129,041,381)</u>	<u>(133,693,455)</u>
Net position, end of period	<u>\$ 30,887,999</u>	<u>30,960,157</u>

See accompanying notes to financial statements.

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Statements of Budgetary Resources

Years ended September 30, 2007 and 2006

	<b>2007</b>	<b>2006</b>
Budgetary resources:		
Unobligated balance, brought forward	\$ 67,869,658	69,597,787
Budget authority		
Appropriations received (assessments)	130,467,193	134,729,917
Spending authority from offsetting collections	38,741	—
Temporary not available pursuant to Public Law	—	(20,480)
Total budgetary resources	\$ 198,375,592	204,307,224
Status of Budgetary Resources:		
Obligations Incurred (Note 7)		
Direct	\$ 131,918,901	136,437,566
Unobligated balances - available:		
Apportioned		
Other available - exempt from apportionment	66,456,691	67,869,658
Total status of budgetary resources	\$ 198,375,592	204,307,224
Change in obligated balance:		
Obligated balance, net		
Unpaid obligations, brought forward, October 1	\$ 5,409,871	3,710,894
Obligations Incurred, net	131,918,901	136,437,566
Less: Gross Outlays	(133,673,406)	(134,738,589)
Obligated balance, net, end of period	\$ 3,655,366	5,409,871
Unpaid obligations		
Outlays:		
Gross Outlays	\$ 133,673,406	134,738,589
Less: Offsetting collections	(38,741)	—
Net outlays	\$ 133,634,665	134,738,589

See accompanying notes to financial statements.



**LONGSHORE AND HARBOR WORKERS'  
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Notes to the Financial Statements

Years ended September 30, 2007 and 2006

**(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 and budgetary resources of the Longshore and Harbor Workers' 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 employees disabled from injuries which occurred on the navigable waters of the United States, or in adjoining areas used for loading, unloading, repairing, or building a vessel. The Fund also extends benefits to dependents if any injury resulted in the employee's death.

Additionally, the Longshore and Harbor Workers' 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. Appropriated funding is reflected in the Federal Employees Compensation Act's Special Benefit Fund.

**(b) Basis of Accounting and Presentation**

These financial statements present the financial position, net cost of operations, changes in net position and budgetary resources of the Longshore and Harbor Workers' Compensation Act Special Fund (Fund), in accordance with U.S. generally accepted accounting principles and the form and content requirements of OMB Circular A-136. 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 Longshore and Harbor Workers' Compensation Act Program (Longshore Program). In addition to the Fund costs presented in these statements, the full cost of the Longshore Program would include certain direct costs of ESA in the form of

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Notes to the Financial Statements

Years ended September 30, 2007 and 2006

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 Longshore Program is included in the Consolidated Financial Statements of the U.S. Department of Labor.

U.S. generally accepted accounting principles 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.

Effective for FY 2007, OMB Circular A-136 has removed the Statement of Financing as a Principal Financial Statement. The purpose of this Statement was to explain how budgetary resources obligated during the period relate to the net cost of operations for the reporting entity. OMB decided that this reconciliation would be better understood as a note rather than a principle statement. This reconciliation is disclosed in Note 8, Reconciliation of Budgetary Resources Obligated to Net Cost of Operations.

**(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 Fund balance with U.S. Treasury is a trust fund that is 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.

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**(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 primarily from amended compensation orders and corrections of payment computations.

**(f) *Accrued Benefits Payable***

The Longshore and Harbor Workers' Compensation Special Fund provides compensation and medical benefits for work related injuries to workers in certain maritime employment. The Fund recognizes a liability for disability benefits payable to the extent of unpaid benefits applicable to the current period. It does not include a liability for incurred but not reported claims. Ultimate responsibility for payment of such claims rests with the employer organizations.

**(g) *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.

**(h) *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. Assessments are recognized as non-exchange revenue when due. Included in assessment revenues in the accompany Statement of Changes and Net Position are recoveries of amounts based on previously under-reported payments by self-insures or carriers. These reassessments primarily result from the application of Agreed Upon Procedures (AUP) on reported carrier data. Recoveries amounted to \$2,133,496 for the fiscal year ended September 30, 2007 and \$6,545,834 for

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the fiscal year ended September 30, 2006 as the AUP process was just introduced in fiscal year 2007. The Fund also receives interest on Fund investments and on Federal funds in the possession of non-Federal entities.

**(2) Funds with U.S. Treasury**

Funds with U.S. Treasury at September 30, 2007 and 2006 consisted of cash deposits of \$153,564 and \$154,036, respectively. These cash deposits at September 30, 2007 and 2006 included \$369 and \$207, respectively, which are being held as security by authority of Section 32 of the Longshore and Harbor Workers' Compensation Act. These funds relate to the default of self-insured employers, are available for payment of compensation and medical benefits to covered employees of the defaulted companies.

Funds with U.S. Treasury at September 30, 2007 consisted of the following:

<u>(In Dollars)</u>	Entity Assets			<u>Total Entity Assets</u>	<u>Non-entity Assets</u>	<u>Total</u>
	<u>Unobligated Balance Available</u>	<u>Unobligated Balance Unavailable</u>	<u>Obligated Balance Not Yet Disbursed</u>			
Special Fund	\$ —	—	153,564	153,564	—	153,564

Funds with U.S. Treasury at September 30, 2006 consisted of the following:

<u>(In Dollars)</u>	Entity Assets			<u>Total Entity Assets</u>	<u>Non-entity Assets</u>	<u>Total</u>
	<u>Unobligated Balance Available</u>	<u>Unobligated Balance Unavailable</u>	<u>Obligated Balance Not Yet Disbursed</u>			
Special Fund	\$ —	—	154,036	154,036	—	154,036

**(3) Investments**

Investments at September 30, 2007 and 2006 consisted of the following:

<u>(In Dollars)</u>	September 30, 2007			
	<u>Face Value</u>	<u>Net Discount</u>	<u>Market Value</u>	<u>Value</u>
Intragovernmental securities:				
Marketable	\$ 69,979,000	—	69,979,000	69,979,000

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(In Dollars)	September 30, 2006			Value
	Face Value	Net Discount	Market Value	
Intragovernmental securities:				
Marketable	\$ 73,146,000	—	73,146,000	73,146,000

Investments of \$7,996,900 and \$7,272,300 at September 30, 2007 and 2006, respectively, are being held as security by authority of Section 32 of the Longshore and Harbor Workers' Compensation Act. These investments are available for payment of compensation and medical benefits to covered employees of the defaulted companies. Investments at September 30, 2007 and 2006 consist of overnight securities. Investments at September 30, 2007 bear an interest rate of 3.99% compared to an interest rate of 5.03% for September 30, 2006. Interest rates on securities bought and sold during fiscal year 2007 ranged from 2.16% to 5.35% compared to 3.46% to 5.30% for fiscal year 2006.

**(4) Accounts Receivable, Net**

Accounts receivable at September 30, 2007 and 2006 consisted of the following:

(In Dollars)	2007	2006
Entity assets:		
Intragovernmental:		
Interest Receivable	\$ 15,512	10,220
Total Intragovernmental accounts receivable	\$ 15,512	10,220
Benefit overpayments	\$ 2,747,219	2,213,883
Assessments receivable	2,323,263	1,027,573
Less: allowance for doubtful accounts	(1,267,621)	(810,354)
Total accounts receivable from the public, net	\$ 3,802,861	2,431,102

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.

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Changes in the allowance for doubtful accounts during fiscal year 2007 and fiscal year 2006 consisted of the following:

(In Dollars)	2007				
	Allowance October 1, 2006	Write Offs	Revenue Adjustment	Bad Debt	Allowance September 30, 2007
Entity assets:					
Benefit overpayments \$	(684,031)	—	—	(2,774)	(686,805)
Assessment receivable	(126,323)	—	—	(454,493)	(580,816)
	<u>\$ (810,354)</u>	<u>—</u>	<u>—</u>	<u>(457,267)</u>	<u>(1,267,621)</u>

(In Dollars)	2006				
	Allowance October 1, 2005	Write Offs	Revenue Adjustment	Bad Debt	Allowance September 30, 2006
Entity assets:					
Benefit overpayments \$	(366,628)	—	—	(317,403)	(684,031)
Assessment receivable	(72,263)	—	—	(54,060)	(126,323)
	<u>\$ (438,891)</u>	<u>—</u>	<u>—</u>	<u>(371,463)</u>	<u>(810,354)</u>

**(5) Other Liabilities**

Other liabilities at September 30, 2007 and 2006 consisted of the following current liabilities:

(In Dollars)	2007	2006
Other liabilities:		
Assessment overpayments by carriers	\$ 117,855	869,570
Defaulted employer liability:		
Held in investments	7,996,900	7,272,300
Held in cash	368	207
	<u>7,997,268</u>	<u>7,272,507</u>
Total other liabilities	<u>\$ 8,115,123</u>	<u>8,142,077</u>

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

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Defaulted employer liability relates to funds and investments held by the Longshore 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.

**(6) Due to OWCP**

The Fund reimburses the Office of Workers' Compensation Programs (OWCP) (a related entity within the Employment Standards Administration) for rehabilitation services provided to eligible claimants and certain direct expenses associated with administrative support of the Fund. Approved transfers out to the OWCP were \$2,041,885 in 2007 and \$2,027,520 in 2006. Transfers are made from the Special Fund in accordance with sections 39(c), 44(d), and 44(j) of the Longshore and Harbor Workers' Compensation Act.

**(7) Status of Budgetary Resources**

**(a) Apportionment Categories of Obligations Incurred**

<u>(In Dollars)</u>	<u>2007</u>	<u>2006</u>
Direct Obligations:		
Exempt from apportionment	\$ 131,918,901	136,437,566

**(b) Explanation of Differences Between the Statement of Budgetary Resources and the Budget of the United States Government**

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, 2006 is shown below:

<u>(Dollars in Millions)</u>		<u>2006</u>	
		<u>Budgetary Resources</u>	<u>Obligations Incurred</u>
Statement of Budgetary Resources	\$ 204	137	135
District of Columbia Workers' Compensation	16	10	10
Budget of the United States Government	\$ 220	147	145

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**(8) Reconciliation of Budgetary Resources Obligated to Net Cost of Operations**

	<b>2007</b>	<b>2006</b>
Budgetary resources obligated:		
Obligations incurred	\$ 131,918,901	136,437,566
Other resources:		
Transfers out	(2,041,885)	(2,027,520)
Total resources used to finance activities	129,877,016	134,410,046
Resources used to finance items not part of the net cost of operations		
Resources that finance the acquisition of assets	(38,741)	(232,776)
Total resources used to finance items not part of the net cost of operations	(38,741)	(232,776)
Total resources used to finance the net cost of operations	129,838,275	134,177,270
Components not requiring or generating resources:		
Revaluation of assets and liabilities	(263,557)	263,557
Benefit overpayments	(533,337)	(747,372)
Total components of net cost of operations that will not require or generate resources in the current period	(796,894)	(483,815)
Net cost of operations	\$ 129,041,381	133,693,455

**(9) Concentration of Risk**

The Fund makes assessments to authorized insurers and self-insurers 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. Assessments are based on compensation and medical benefits paid in the prior calendar year.



