

**U. S. DEPARTMENT OF LABOR{PRIVATE }
EMPLOYMENT STANDARDS ADMINISTRATION**

**LONGSHORE AND HARBOR WORKERS'
COMPENSATION ACT SPECIAL FUND
FINANCIAL STATEMENTS
SEPTEMBER 30, 2000**

March 2001

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

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

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

ACRONYMS

CFO	Chief Financial Officer
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
FUND	Longshore and Harbor Workers' Compensation Act Special Fund
FY	Fiscal Year
JFMIP	Joint Financial Management Improvement Project
LCMS	Longshore Case Management System
LHWCP	Longshore and Harbor Workers' Compensation Program
OCFO	Office of the Chief Financial Officer
OMB	Office of Management and Budget
OWCP	Office of Workers' Compensation Programs

U. S. DEPARTMENT OF LABOR
EMPLOYMENT STANDARDS ADMINISTRATION

SECTION I
OVERVIEW OF THE
REPORTING ENTITY

Fiscal Year 2000
Financial Statements

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

**OVERVIEW OF THE REPORTING ENTITY
SEPTEMBER 30, 2000**

MISSION AND ORGANIZATIONAL STRUCTURE

The Longshore and Harbor Workers' program 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 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.

Administrative services for operating the Fund are provided by the DLHWC through direct Federal Appropriations. Appropriated funding for administrative services is not reflected in the accompanying statements.

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.

FINANCIAL HIGHLIGHTS

The majority of revenue of the Fund (\$132,300,020) is generated through annual recurring assessments paid by self-insured employers and insurance carriers. During FY 2000, substantial recoveries were made for the Fund due to activities involving audits of Forms LS-513, Report of Payments (used in the calculation of the annual assessment), and negotiation/collection of past due assessments. Equally important, the audits have uncovered common reporting errors and other record-keeping mistakes which, when discovered, are being eliminated. The on-going audit program recovered \$51,276 in FY 2000 for the Fund. These recoveries have and will continue to reduce carrier assessments.

Investment income for the Fund was \$2,457,542 for FY 2000. The average interest rate earned during FY 2000 was 5.49 percent. Total expenditures for FY 2000 were \$129,452,878, while expenses of the Fund remained relatively stable.

PERFORMANCE GOALS AND RESULTS

The DLHWC 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 Longshore program assists in meeting this outcome goal.

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

**OVERVIEW OF THE REPORTING ENTITY
SEPTEMBER 30, 2000**

PERFORMANCE GOALS AND RESULTS - Continued

The Longshore program also supports ESA 's **Strategic Goal 2**. This goal simply stated is to *secure public confidence through excellence in the management and delivery of ESA's programs and services*. The Longshore program supports this ESA strategic goal by subscribing to ESA's **Outcome Goal 2.4**. This outcome goal is to *foster organizational excellence and increase collaboration*. In order to accomplish this outcome Longshore has established the following performance goal for FY 2000:

Reduce the average time required to reach a Longshore and Harbor Worker's Compensation Program case resolution in cases with disputed issues when measured against the baseline. In FY 2000, complete system programming for entering and generating goal-related data and establish a performance baseline after data analysis.

In FY 2000 this goal was substantially met. System programming for entering and generating goal-related data was completed and data collection was started. However, goal refinement at mid-year required extending the data collection period to a full year to ensure an inclusive baseline. The target for establishing a baseline is now May 2001.

The Longshore and Harbor Workers' Compensation Act 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 FY 2000, 6,420 workers (customers) received compensation benefits from the Fund.

LIMITATIONS OF THE FINANCIAL STATEMENTS

The following limitations of the financial statements are a required part of the accompanying overview.

- 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 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

SECTION II
FINANCIAL STATEMENTS

Fiscal Year 2000
Financial Statements

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

**BALANCE SHEET
AS OF SEPTEMBER 30, 2000**

ASSETS

Intragovernmental assets	
Funds with U.S. Treasury (Note 2)	\$ 450,598
Investments (Note 3)	<u>58,378,978</u>
Total intragovernmental assets	58,829,576
Accounts receivable, net (Note 4)	<u>1,226,777</u>
Total Assets	<u>\$ 60,056,353</u>

LIABILITIES AND NET POSITION

Liabilities

Accrued benefits payable	\$ 1,284,834
Deferred revenue	33,170,925
Other liabilities (Note 5)	<u>1,939,101</u>

Total liabilities 36,394,860

Net position

Cumulative results of operations	<u>23,661,493</u>
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Total Liabilities and Net Position **\$ 60,056,353**

The accompanying notes are an integral part of these statements.

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

**STATEMENT OF NET COST
FOR THE YEAR ENDED SEPTEMBER 30, 2000**

SPECIAL FUND NET COST OF OPERATIONS

With the public

Second injury compensation, Section 8(f)	\$ 119,537,494
Wage increase compensation, Section 10(h)	2,470,725
Compensation payment for self-insurer in default, Section 18(b)	4,780,069
Rehabilitation services 39 (c)	2,498,457
Rehabilitation maintenance, Section 8(g)	25,073
Medical services, Section 7(e)	934
Disbursement – bankrupt self-insured employers	<u>140,126</u>

Net cost of operations

\$ 129,452,878

The accompanying notes are an integral part of these statements.

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

**STATEMENT OF CHANGES IN NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2000**

CHANGE IN NET POSITION

Net cost of operations	<u>\$ (129,452,878)</u>
Net financing sources	
Non-exchange revenue	132,300,020
Assessments	<u>2,457,542</u>
Interest	134,757,562
Total	<u>134,757,562</u>
Transfers-out (Note 6)	<u>(1,740,000)</u>
Total net financing sources	<u>133,017,562</u>
Net results of operations	3,564,684
Net position, beginning of period	<u>20,096,809</u>
Net position, end of period	<u><u>\$ 23,661,493</u></u>

The accompanying notes are an integral part of these statements.

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

**STATEMENT OF BUDGETARY RESOURCES
FOR THE YEAR ENDED SEPTEMBER 30, 2000**

BUDGETARY RESOURCES (Note 7)

Budgetary authority	\$ 136,239,448
Unobligated balances, beginning	<u>52,196,458</u>

Total budgetary resources **\$ 188,435,906**

STATUS OF BUDGETARY RESOURCES

Obligations incurred (Note 7)	\$ 131,382,692
Unobligated balances available	1,397,519
Unobligated balances not available	<u>55,655,695</u>

Total status of budgetary resources **\$ 188,435,906**

OUTLAYS (Note 7)

Obligations incurred	\$ 131,382,692
Obligated balance, net, beginning	909,732
Less obligated balance, net, ending	<u>(1,143,865)</u>

Total outlays **\$ 131,148,559**

The accompanying notes are an integral part of these statements.

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

**STATEMENT OF FINANCING
FOR THE YEAR ENDED SEPTEMBER 30, 2000**

OBLIGATIONS AND NON-BUDGETARY RESOURCES

Obligations incurred	\$ 131,382,692
Transfers, net	<u>(1,740,000)</u>

Total obligations as adjusted and non-budgetary resources	<u>129,642,692</u>
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COSTS OF OPERATIONS NOT CONSUMING RESOURCES

Benefit overpayments	<u>(330,782)</u>
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Total costs of operations not consuming resources	<u>(330,782)</u>
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FINANCING SOURCES YET TO BE PROVIDED	<u>140,968</u>
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Net cost of operations	<u>\$ 129,452,878</u>
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The accompanying notes are an integral part of these statements.

U. S. DEPARTMENT OF LABOR
EMPLOYMENT STANDARDS ADMINISTRATION

SECTION III
NOTES TO THE
FINANCIAL STATEMENTS

Fiscal Year 2000
Financial Statements

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

**NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended September 30, 2000**

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 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.

B. Basis of Presentation and Accounting

The Federal Accounting Standards Advisory Board (FASAB), an advisory body created under the terms of the Federal Advisory Council Act (FACA) as amended, considers and recommends standards for Federal accounting. In discharging its responsibilities, the FASAB develops Statements of Federal Financial Accounting Standards, Statements of Federal Financial Accounting Concepts, Interpretations and other communications related to Federal accounting. When the FASAB has developed a proposed concept or standard, it is submitted to the Comptroller General, the Secretary of the Treasury and the Director of OMB for their review. If within ninety days after its submission, any one of these officials objects to the proposed concept or standard, then it shall be returned to the Board for further consideration. If within ninety days, none of these officials objects, then it becomes a final concept or standard of the Board.

The Council of the American Institute of Certified Public Accountants (AICPA) recognized the FASAB as the body designated to establish generally accepted accounting principles (GAAP) for Federal governmental entities under Rule 203, "Accounting Principles," of the AICPA's *Code of Professional Conduct*. The Auditing Standards Board published Statement of Auditing Standards (SAS) No. 91, Amendment to Statement on Auditing Standards No. 69, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles in the Independent Auditor's Report, which established the following hierarchy of accounting principles for Federal governmental entities.

- FASAB Statements and Interpretations, as well as Financial Accounting Standards Board (FASB) and Governmental Accounting Standards Board (GASB) pronouncements specifically made applicable to Federal governmental entities by FASAB Statements and interpretations;

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

**NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended September 30, 2000**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

B. Basis of Presentation and Accounting - Continued

- FASAB Technical Bulletins and, if specifically made applicable to Federal governmental entities by the AICPA and cleared by FASAB, AICPA Industry Audit and Accounting Guides and AICPA Statements of Position;
- AICPA AcSEC Practice Bulletins if specifically made applicable to Federal governmental entities by the AICPA and cleared by FASAB, as well as Technical releases of the Accounting and Auditing Policy Committee (AAPC) of the FASAB;
- Implementation guides published by FASAB staff and practices that are widely recognized and prevalent in the Federal government; as well as other accounting literature, in the absence of guidance in this hierarchy, depending on its relevance in the circumstances.

These financial statements were prepared in accordance with generally accepted accounting principles.

These financial statements have been prepared from the books and records of the Fund, in accordance with the form and content requirements of OMB Bulletin 97-01, as amended, and DOL's accounting policies, as summarized in Note 1. 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 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. These statements are different from the financial reports, also prepared by the DOL pursuant to OMB directives, used to monitor the Fund's use of budgetary resources.

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.

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

**NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended September 30, 2000**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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. Accounts Payable

Accounts payable represent the amount of monies or other resources that are likely to be paid within the next twelve months by the Fund as the result of a transaction or event that has already occurred.

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 revenues are recoveries of amounts reassessed to carriers related to prior years. These reassessments primarily result from audits of reported carrier data. Recoveries amounted to \$51,276 during the fiscal year ended September 30, 2000.

The Fund also receives interest on Fund investments and on Federal funds in the possession of non-Federal entities.

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

**NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended September 30, 2000**

NOTE 2 - FUNDS WITH U.S. TREASURY

Funds with U.S. Treasury at September 30, 2000 consisted of the following:

	Entity Assets			
	Obligated	Unobligated		Total
		Available	Restricted	
Trust funds	\$ -	\$ 450,598	\$ -	\$ 450,598

Funds with the U.S. Treasury at September 30, 2000 includes \$62,544 which is 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 and are available for payment of compensation and medical benefits to covered employees of the defaulted companies.

NOTE 3 - INVESTMENTS

Investments at September 30, 2000 consisted of the following:

	Face Value	Discount	Net Value	Market Value
Intragovernmental securities				
Marketable	\$ 59,144,000	\$ (765,022)	\$ 58,378,978	\$ 58,378,978

Investments of \$912,871 for 2000 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, 2000 consist of short-term U.S. Treasury Bills and are stated at amortized cost which approximates market. Investments at September 30, 2000, bear interest rates varying from 5.84% to 6.09%. Interest rates on securities bought and sold during the fiscal year ranged from 4.53% to 6.09%.

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

**NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended September 30, 2000**

NOTE 4 - ACCOUNTS RECEIVABLE, NET

Accounts receivable at September 30, 2000 consisted of the following:

	2000
Entity assets	
Benefit overpayments	\$ 1,080,782
Assessments receivable	310,832
Less: allowance for doubtful accounts	(164,837)
Total accounts receivable, net	<u>\$ 1,226,777</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 2000 consisted of the following:

	Allowance 9-30-99	Write Offs	Revenue Adjustment	Bad Debt	Allowance 9-30-00
Entity assets					
Benefit overpayments	\$ (15,167)	\$ -	\$ (13,093)	-	\$ (28,260)
Assessment receivable	(600,000)	458,343	5,080	-	(136,577)
	<u>\$(615,167)</u>	<u>\$ 458,343</u>	<u>\$ (8,013)</u>	<u>-</u>	<u>\$(164,837)</u>

NOTE 5 - OTHER LIABILITIES

Other liabilities at September 30, 2000 consisted of the following current liabilities:

	2000
Other liabilities	
Assessment overpayments by carriers	963,686
Defaulted employer liability	
Held in investments	912,871
Held in cash	62,544
	975,415
Total other liabilities	<u>\$ 1,939,101</u>

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

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

**NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended September 30, 2000**

NOTE 5 - OTHER LIABILITIES - Continued

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. Management estimates that these funds and investments held will be sufficient to cover the future benefits associated with the covered employees.

NOTE 6 - RELATED PARTY TRANSACTIONS

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. Amounts paid to the OWCP were \$1,740,000 in 2000.

NOTE 7 - RECONCILIATION TO THE BUDGET

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, 2000 is shown below:

(Dollars in Millions)	<u>Budgetary Resources</u>	<u>Obligations Incurred</u>	<u>Outlays</u>
Statement of Budgetary Resources	\$ 188	\$ 131	\$ 131
Budget of the United States Government	\$ 188	\$ 131	\$ 131

NOTE 8 - CONTINGENCIES AND COMMITMENTS

In the opinion of the management of the Fund and its legal counsel, there is no pending or threatened litigation which has a reasonable possibility of materially affecting the financial position or results of operations of the Fund.

Section 39(c)(2) of the Longshore and Harbor Workers' Compensation Act authorizes vocational rehabilitation of disabled employees and Section 8(g) provides additional compensation to disabled employees while undergoing rehabilitation training. Rehabilitation services paid from the Fund are mainly provided by private counselors and private training facilities. The rehabilitation agreements are funded by future assessments from the insurance carriers and self-insured employers. The amount of the outstanding rehabilitation agreements at September 30, 2000 is \$5,846,397.

