

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, 2006 and 2005

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 black ink that reads "Elliott 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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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 2006 and 2005, 4,888 and 5,740 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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\$138,856,619 in fiscal year 2006. This compares with assessment revenue of \$133,565,310 for fiscal year 2005. During fiscal year 2006 and 2005, 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 \$6,545,834 in fiscal year 2006 and \$3,240,708 in fiscal year 2005 for the Fund. The large increase was due to a single recovery in the early part of the year. These recoveries have and will continue to reduce carrier assessments.

Investment income for the Fund was \$2,016,112 for fiscal year 2006 compared to \$1,006,654 for fiscal year 2005. The average interest rate earned during fiscal year 2006 was 4.61% compared to 2.48% for fiscal year 2005. The Fund's costs remained relatively stable compared to fiscal year 2005; \$133,693,455 for fiscal year 2006 compared to \$130,882,929 for fiscal year 2005.

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 2006 goal was: 250 days.

Reduce by one percent over the FY 2005 baseline the average time required to resolve disputed issues in Longshore and Harbor Worker's Compensation Program contested cases.

This target was achieved, with the program result of 235 days as the average number of days to resolve disputed issues, a 6% improvement over the target of 250 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 2007, these efforts will continue. The FY 2007 target will be 248 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.

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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 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 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.

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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.

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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 sheet of the U.S. Department of Labor's (DOL) Longshore and Harbor Workers' Compensation Act Special Fund (the Fund), as of September 30, 2006, and the related statements of net cost, changes in net position, financing, and budgetary resources (hereinafter referred to as "financial statements") for the year then ended. The objective of our audit was to express an opinion on the fair presentation of these financial statements. In connection with our fiscal year 2006 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. The accompanying financial statements of the Fund as of and for the year ended September 30, 2005, were audited by other auditors whose report thereon, dated July 10, 2006, expressed an unqualified opinion on those consolidated 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 year ended September 30, 2006, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

Our consideration of internal controls over financial reporting and performance measures would not necessarily disclose all matters in the internal control that might be material weaknesses as defined in the Internal Control Over Financial Reporting and Internal Controls Over Performance Measures sections of this report. However, we noted no matters involving the internal control and its operation that we considered to be material weaknesses as defined in this report.

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 herein under *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 06-03, *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 sheet of the U.S. Department of Labor Longshore and Harbor Workers' Compensation Act Special Fund as of September 30, 2006, and the related statements of net cost, changes in net position, financing, and budgetary resources for the year then ended. The accompanying financial statements of the Fund as of and for the year ended September 30, 2005, were audited by other auditors whose report thereon, dated July 10, 2006, expressed an unqualified opinion on those financial statements.

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 Longshore and Harbor Workers' Compensation Act Special Fund as of September 30, 2006, and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the year then ended, in conformity with U.S. generally accepted accounting principles.

The information in the Management 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, *Financial Reporting Requirements*. 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 would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses under standards issued by the American Institute of Certified Public Accountants. 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 control, misstatements due to error or fraud may nevertheless occur and not be detected. However, we noted no



matters involving the internal control and its operation that we considered to be material weaknesses as defined above.

INTERNAL CONTROLS OVER PERFORMANCE MEASURES

Under OMB Bulletin No. 06-03, the definition of material weaknesses is extended to other controls as follows. 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 to a performance measure or aggregation of related performance measures, 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 control, misstatements due to error or fraud may nevertheless occur and not be detected.

In our fiscal year 2006 audit, we noted no matters involving the design and operation of the internal control over the existence and completeness assertions related to key performance measures that we considered to be material weaknesses as defined above.

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. 06-03.

* * * * *

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 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 2006 financial statements of the Fund based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audit contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 06-03. Those standards and OMB Bulletin No. 06-03 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

In planning and performing our fiscal year 2006 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 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 *Government Auditing Standards* and OMB Bulletin No. 06-03. 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 provide an opinion on the Fund's internal control over financial reporting. Consequently, we do not provide an opinion thereon.



As further required by OMB Bulletin No. 06-03, in our fiscal year 2006 audit, with respect to internal control related to performance measures determined by management to be key and reported in the Management Discussion and Analysis section 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 test and report on the internal control over key performance measures in accordance with OMB Bulletin No. 06-03. 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 2006 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.

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 30, 2007

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**LONGSHORE AND HARBOR WORKERS'
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Balance Sheets

September 30, 2006 and 2005

Assets	2006	2005
Intra-governmental assets:		
Funds with U.S. Treasury (note 2)	\$ 154,036	13,309,829
Investments (note 3)	73,146,000	60,000,000
Accounts receivable (Note 4)	10,220	—
Total intra-governmental assets	<u>73,310,256</u>	<u>73,309,829</u>
Accounts receivable, net of allowance (note 4)	<u>2,431,102</u>	<u>1,221,523</u>
Total assets	<u>\$ 75,741,358</u>	<u>74,531,352</u>
Liabilities and Net Position		
Liabilities:		
Accounts payable	\$ 2,027,520	476,567
Accrued benefits payable	3,382,352	3,234,327
Deferred revenue	31,229,252	36,583,028
Other liabilities (note 5)	8,142,077	8,429,029
Total liabilities	<u>44,781,201</u>	<u>48,722,951</u>
Net position:		
Cumulative results of operations	<u>30,960,157</u>	<u>25,808,401</u>
Total liabilities and net position	<u>\$ 75,741,358</u>	<u>74,531,352</u>

See accompanying notes to financial statements.

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Statements of Net Cost

Years ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Special fund net cost of operations:		
Second injury compensation, Section 8(f)	\$ 122,337,055	120,095,708
Wage increase compensation, Section 10(h)	1,810,952	1,976,776
Compensation payment for self-insurer in default, Section 18(b)	5,078,887	4,760,655
Rehabilitation services, Section 39 (c)	2,974,147	2,602,208
Rehabilitation maintenance, Section 8(g)	—	985
Medical services, Section 7(e)	1,750	185
Bankrupt self-insured employers	1,490,664	1,446,412
Net cost of operations	<u>\$ 133,693,455</u>	<u>130,882,929</u>

See accompanying notes to financial statements.

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Statements of Changes in Net Position

Years ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cumulative results of operations, beginning	\$ 25,808,401	24,141,933
Budgetary financing sources:		
Transfers in/out without reimbursement (note 6)	(2,027,520)	(2,022,567)
Non-exchange revenues:		
Interest	2,016,112	1,006,654
Assessments	<u>138,856,619</u>	<u>133,565,310</u>
Total non-exchange revenues	<u>140,872,731</u>	<u>134,571,964</u>
Total financing sources	138,845,211	132,549,397
Net cost of operations	<u>(133,693,455)</u>	<u>(130,882,929)</u>
Net position, end of period	<u>\$ 30,960,157</u>	<u>25,808,401</u>

See accompanying notes to financial statements.

**LONGSHORE AND HARBOR WORKERS'
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Statements of Budgetary Resources

Years ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Budgetary resources:		
Unobligated balance, brought forward	\$ 69,597,787	66,856,569
Budget authority		
Appropriations received (assessments)	134,729,917	135,647,836
Temporary not available pursuant to Public Law	(20,480)	(1,122)
Total budgetary resources	<u>\$ 204,307,224</u>	<u>202,503,283</u>
Status of Budgetary Resources:		
Obligations Incurred (Note 7)		
Direct	\$ 136,437,566	132,905,496
Unobligated balances - available:		
Apportioned		
Other available - exempt from apportionment	67,869,658	69,597,787
Total status of budgetary resources	<u>\$ 204,307,224</u>	<u>202,503,283</u>
Change in obligated balance:		
Obligated balance, net		
Unpaid obligations, brought forward, October 1	\$ 3,710,894	3,155,032
Obligations Incurred, net	136,437,566	132,905,496
Less: Gross Outlays	(134,738,589)	(132,349,634)
Obligated balance, net, end of period		
Unpaid obligations	<u>\$ 5,409,871</u>	<u>3,710,894</u>
Outlays:		
Gross Outlays	<u>\$ 134,738,589</u>	<u>132,349,634</u>
Net outlays	<u>\$ 134,738,589</u>	<u>132,349,634</u>

See accompanying notes to financial statements.

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Statements of Financing
Years ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Budgetary resources obligated:		
Obligations incurred	\$ 136,437,566	132,905,496
Other resources:		
Transfers, net	<u>(2,027,520)</u>	<u>(2,022,567)</u>
Total resources used to finance activities	<u>134,410,046</u>	<u>130,882,929</u>
Resources used to finance items not part of the net cost of operations		
Resources that finance the acquisition of assets	(232,776)	—
Total resources used to finance items not part of the net cost of operations	<u>(232,776)</u>	<u>—</u>
Total resources used to finance the net cost of operations	<u>134,177,270</u>	<u>130,882,929</u>
Components not requiring or generating resources:		
Revaluation of assets and liabilities	263,557	—
Benefit overpayments	<u>(747,372)</u>	<u>—</u>
Total components of net cost of operations that will not require or generate resources in the current period	<u>(483,815)</u>	<u>—</u>
Net cost of operations	<u>\$ 133,693,455</u>	<u>130,882,929</u>

See accompanying notes to financial statements.

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

Years ended September 30, 2006 and 2005

(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. 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, budgetary resources and financing activities of the Longshore and Harbor Workers' Compensation Act Special Fund (Fund), in accordance with U.S. accounting principles 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'

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

Years ended September 30, 2006 and 2005

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.

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.

(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.

(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

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Notes to the Financial Statements

Years ended September 30, 2006 and 2005

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.

(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 application of Agreed Upon Procedures (AUP) on reported carrier data. Recoveries amounted to \$6,545,834 during fiscal year ended September 30, 2006 and \$3,240,708 during fiscal year ended September 30, 2005.

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

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Notes to the Financial Statements

Years ended September 30, 2006 and 2005

(2) Funds with U.S. Treasury

Funds with U.S. Treasury at September 30, 2006 and 2005 consisted of cash deposits of \$154,036 and \$13,309,829, respectively. These cash deposits at September 30, 2006 and 2005 included \$207 and \$143,307, 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, 2006 consisted of the following:

	Entity Assets			Total Entity Assets	Non-entity Assets	Total
	Unobligated Balance Available	Unobligated Balance Unavailable	Obligated Balance Not Yet Disbursed			
Special Fund	\$ —	—	154,036	154,036	—	154,036

Funds with U.S. Treasury at September 30, 2005 consisted of the following:

	Entity Assets			Total Entity Assets	Non-entity Assets	Total
	Unobligated Balance Available	Unobligated Balance Unavailable	Obligated Balance Not Yet Disbursed			
Special Fund	\$ —	—	13,309,829	13,309,829	—	13,309,829

(3) Investments

Investments at September 30, 2006 and 2005 consisted of the following:

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

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

Years ended September 30, 2006 and 2005

	September 30, 2005			Value
	Face Value	Net Discount	Market Value	
Intragovernmental securities:				
Marketable	\$ 60,000,000	—	60,000,000	60,000,000

Investments of \$7,272,300 and \$8,252,000 at September 30, 2006 and 2005, 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, 2006 and 2005 consist of overnight securities and short-term U.S. Treasury Bills that are stated at amortized cost, which approximates market. Investments at September 30, 2006 bear an interest rate of 5.03% compared to rates varying from 1.34% to 3.67% for 2005. Interest rates on securities bought and sold during fiscal year 2006 ranged from 3.46% to 5.30% compared to 1.34% to 3.67% for fiscal year 2005.

(4) Accounts Receivable, Net

Accounts receivable at September 30, 2006 and 2005 consisted of the following:

	2006	2005
Entity assets:		
Intragovernmental:		
Interest Receivable	\$ 10,220	—
Total Intragovernmental accounts receivable	\$ 10,220	—
Benefit overpayments	\$ 2,213,883	1,466,511
Assessments receivable	1,027,573	193,903
Less: allowance for doubtful accounts	(810,354)	(438,891)
Total accounts receivable from the public, net	\$ 2,431,102	1,221,523

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.

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

Notes to the Financial Statements

Years ended September 30, 2006 and 2005

Changes in the allowance for doubtful accounts during fiscal year 2006 and fiscal year 2005 consisted of the following:

	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)
	\$ (438,891)	—	—	(371,463)	(810,354)

	2005				
	Allowance October 1, 2004	Write Offs	Revenue Adjustment	Bad Debt	Allowance September 30, 2005
Entity assets:					
Benefit overpayments \$	(366,628)	—	—	—	(366,628)
Assessment receivable	(72,263)	—	—	—	(72,263)
	\$ (438,891)	—	—	—	(438,891)

(5) Other Liabilities

Other liabilities at September 30, 2006 and 2005 consisted of the following current liabilities:

	2006	2005
Other liabilities:		
Assessment overpayments by carriers	\$ 869,570	33,722
Defaulted employer liability:		
Held in investments	7,272,300	8,252,000
Held in cash	207	143,307
	7,272,507	8,395,307
Total other liabilities	\$ 8,142,077	8,429,029

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

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

Years ended September 30, 2006 and 2005

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) 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 \$2,027,520 in 2006 and \$2,022,567 in 2005.

(7) Statement Of Budgetary Resources

(a) Apportionment Categories of Obligations Incurred

	<u>2006</u>	<u>2005</u>
Direct Obligations:		
Exempt from apportionment	\$ <u>136,437,566</u>	<u>132,905,496</u>

(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, 2005 is shown below:

<u>(Dollars in Millions)</u>	<u>2005</u>		
	<u>Budgetary Resources</u>	<u>Obligations Incurred</u>	<u>Outlays</u>
Statement of Budgetary Resources	\$ 203	133	132
District of Columbia Workers' Compensation	<u>15</u>	<u>11</u>	<u>11</u>
Budget of the United States Government	\$ <u>218</u>	<u>144</u>	<u>143</u>