

U.S. Department of Labor

Office of Inspector General—Office of Audit

EMPLOYMENT STANDARDS ADMINISTRATION



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

September 30, 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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**DISTRICT OF COLUMBIA WORKMEN'S
COMPENSATION ACT SPECIAL FUND**

Table of Contents

	Page
ACRONYMS	ii
MANAGEMENT'S DISCUSSION AND ANALYSIS	
Mission and Organizational Structure	1
Financial Highlights	2
Performance Goals and Results	2
Internal Controls and Systems	3
Known Risks and Uncertainties	3
Limitations of the Financial Statements	4
INDEPENDENT AUDITORS' REPORT	5
FINANCIAL STATEMENTS	
Balance Sheets	11
Statements of Net Cost	12
Statements of Changes in Net Position	13
Statements of Budgetary Resources	14
Statements of Financing	15
NOTES TO THE FINANCIAL STATEMENTS	
Note 1 – Summary of Significant Accounting Policies	17
Note 2 – Funds with U.S. Treasury	19
Note 3 – Investments	20
Note 4 – Accounts Receivable, Net	21
Note 5 – Other Liabilities	22
Note 6 – Statement of Budgetary Resources	23

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

Acronyms

DCCA	District of Columbia Workmen's Compensation Act Special Fund
DLHWC	Division of Longshore and Harbor Workers' Compensation
DOL	Department of Labor
ESA	Employment Standards Administration
FY	Fiscal Year
LHWCA	Longshore Harbor Workers' Compensation Act
OMB	Office of Management and Budget
OWCP	Office of Workers' Compensation Programs
U.S.C.	United States Code

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

Management's Discussion and Analysis

September 30, 2006 and 2005

Mission and Organizational Structure

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

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

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

The DCCA provides medical benefits, compensation for lost-wages and rehabilitation services for job-related injuries, diseases or death of certain private-sector workers in the District of Columbia. Generally, benefits are paid directly from private funds by an authorized self-insured employer or through an authorized insurance carrier. Cases meeting the requirements of the Longshore and Harbor Workers' Compensation statute as extended to the District of Columbia Act of 1928 are paid from the Fund comprised primarily of employer contributions (assessments) and administered by the DLHWC. In fiscal year 2006 and 2005, 621 and 638 injured workers and their dependants received compensation benefits from the Fund.

Additionally, the District of Columbia Workmen's Compensation Act incorporates Section 10(h) of the LHWCA, which 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

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

Management's Discussion and Analysis

September 30, 2006 and 2005

accompanying financial statements. Appropriated funding is reflected in the Federal Employees Compensation Act's Special Benefits Fund.

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

Financial Highlights

The majority of the revenue of the Fund is generated through annual recurring assessments paid by self-insured employers and insurance carriers and totaled \$10,788,519 in fiscal year 2006. This compares with assessment revenue of \$11,427,419 for fiscal year 2005. In addition, investment income for the Fund was \$154,528 for fiscal year 2006 compared to \$62,554 for fiscal year 2005. The average interest rate earned during fiscal year 2006 was 4.61% compared to 2.50% for fiscal year 2005.

The Fund's costs remained relatively stable compared to fiscal year 2005; \$10,448,159 for fiscal year 2006 compared to \$10,574,792 for fiscal year 2005. Proceeds of the Fund are used for payments under: section 8(f) for second injury claims; section 10(h) for initial and subsequent annual adjustments in compensation for permanent total disability or related death from injuries which occurred prior to the effective date of the 1972 LHWCA amendments; and section 18(b) for compensation to injured workers in cases of employer default.

Performance Goals and Results

DCCA 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 DCCA program supports Performance Goal 4B – Reduce the Consequences of Work-Related Injuries. The Department of Labor plays a large role in ensuring that worker benefits are protected and that employers administer benefit programs in an appropriate way. The DCCA program assists in meeting this outcome goal by establishing the long term performance goal of ensuring sufficient funds are assessed to fund the annual payments, and by prompt payment to the beneficiaries. These targets were achieved. The assessments were sufficient to cover the costs, and no beneficiaries suffered a delayed payment.

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

Management's Discussion and Analysis

September 30, 2006 and 2005

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

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.

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

Known Risks and Uncertainties

The DCCA Fund is assessed one year at a time for current expenses; there is no reserve for future Fund obligations. In keeping with the requirement of section 44 of the Longshore Act, obligations are paid as they are incurred. Assessments are based on compensation and medical benefits paid in the prior calendar year. The District of Columbia Workmen's Compensation Act of 1928 has been repealed and the DC Special Fund only assesses based on payments in cases that arose prior to July 26, 1982, the annual Special Fund assessment is assessed against a shrinking base of industry payments. These payments are concentrated among a relatively few insurance carriers and self insured employers. For example, the largest nine insurance carriers and self-insured employers alone fund over 63% of the District of Columbia assessments. If one or more of the largest payers became insolvent and was unable to pay their assessment obligations, temporary collection issues would result, necessitating special, unscheduled assessments or other actions to keep the Special Fund funded for current liabilities.

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

Management's Discussion and Analysis

September 30, 2006 and 2005

One insurance company group is currently insolvent and is being operated by the State of Illinois Insurance Department. The group is responsible for nearly 20% of the total District of Columbia assessments. If these carriers go into liquidation and stop paying their assessments, this would precipitate a collection crisis for the District of Columbia assessment.

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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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) District of Columbia Workmen's 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's District of Columbia Workmen's Compensation Act Special Fund as of September 30, 2006, and the related statements of net cost, changes in net position, financing, and the statement of 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's District of Columbia Workmen's 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 controls, misstatements due to error or fraud may nevertheless occur and not be detected. However, we noted no matters involving the internal controls over financial reporting 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, regulations, contracts, and grant agreements 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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**DISTRICT OF COLUMBIA WORKMEN'S
COMPENSATION ACT SPECIAL FUND**

Balance Sheets

September 30, 2006 and 2005

Assets	2006	2005
Intra-governmental assets:		
Funds with U.S. Treasury (Note 2)	\$ 75,967	2,066,020
Investments (Note 3)	5,611,000	3,000,000
Accounts receivable (Note 4)	784	—
Total intra-governmental assets	<u>5,687,751</u>	<u>5,066,020</u>
Accounts receivable, net of allowance (Note 4)	<u>411,594</u>	<u>384,027</u>
Total assets	<u><u>\$ 6,099,345</u></u>	<u><u>5,450,047</u></u>
Liabilities and Net Position		
Liabilities:		
Accrued benefits payable	\$ 282,571	251,997
Deferred revenue	2,633,150	2,783,452
Other liabilities (note 5)	746,086	471,948
Total liabilities	<u>3,661,807</u>	<u>3,507,397</u>
Net position:		
Cumulative results of operations	<u>2,437,538</u>	<u>1,942,650</u>
Total liabilities and net position	<u><u>\$ 6,099,345</u></u>	<u><u>5,450,047</u></u>

See accompanying notes to financial statements.

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

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)	\$ 9,620,081	9,787,312
Wage increase compensation, Section 10(h)	588,473	598,929
Compensation payment for self-insurer in default, Section 18(b)	<u>239,605</u>	<u>188,551</u>
Net cost of operations	<u>\$ 10,448,159</u>	<u>10,574,792</u>

See accompanying notes to financial statements.

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

Statements of Changes in Net Position

Years ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cumulative results of operations, beginning	\$ 1,942,650	1,027,469
Budgetary financing sources:		
Non-exchange revenues:		
Investment interest	154,528	62,554
Assessments	<u>10,788,519</u>	<u>11,427,419</u>
Total non-exchange revenues	10,943,047	11,489,973
Net cost of operations	<u>(10,448,159)</u>	<u>(10,574,792)</u>
Net position, end of period	<u>\$ 2,437,538</u>	<u>1,942,650</u>
See accompanying notes to financial statements.		
Net position, end of period	<u>\$ 4,380,188</u>	<u>2,970,119</u>

See accompanying notes to financial statements.

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

Statements of Budgetary Resources
Years ended September 30, 2006 and 2005

	2006	2005
Budgetary resources:		
Unobligated balance, brought forward	\$ 4,815,948	4,719,538
Budget authority		
Appropriations received (assessments)	10,867,049	10,674,005
Total budgetary resources	\$ 15,682,997	15,393,543
Status of budgetary resources:		
Obligations incurred (Note 6)		
Direct	\$ 10,153,891	10,577,595
Unobligated balances - available:		
Other available - exempt from apportionment	5,529,106	4,815,948
Total status of budgetary resources	\$ 15,682,997	15,393,543
Change in obligated balance:		
Obligated balance, net		
Unpaid obligations, brought forward, October 1	\$ 251,997	282,550
Obligations incurred, net	10,153,891	10,577,595
Less: Gross Outlays	(10,246,101)	(10,608,148)
Obligated balance, net, end of period		
Unpaid obligations	\$ 159,787	251,997
Outlays:		
Gross Outlays	\$ 10,246,101	10,608,148
Net outlays	\$ 10,246,101	10,608,148

See accompanying notes to financial statements.

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

Statements of Financing
Years ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Obligations incurred	\$ 10,153,891	10,577,595
Total resources used to finance activities	<u>10,153,891</u>	<u>10,577,595</u>
Resources used to finance items not part of the net cost of operations		
Resources that finance the acquisition of assets	(10,522)	—
Total resources used to finance items not part of the net cost of operations	<u>(10,522)</u>	<u>—</u>
Total Resources used to finance the net cost of operations	<u>10,143,369</u>	<u>10,577,595</u>
Components not requiring or generating resources:		
Revaluation of assets and liabilities	5,284	(6,469)
Other	<u>299,506</u>	<u>3,666</u>
Total components of net cost of operations that will not require or generate resources in the current period	<u>304,790</u>	<u>(2,803)</u>
Net cost of operations	<u>\$ 10,448,159</u>	<u>10,574,792</u>

See accompanying notes to financial statements.

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

Notes to the Financial Statements

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

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

(b) Basis of Accounting and Presentation

These financial statements present the financial position, net cost of operations, changes in net position, budgetary resources and financing activities of the 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 District of Columbia Workmen's Compensation (DCCA) program administered under the Longshore and Harbor Workers' Compensation Act Program (Longshore Program). In addition to the Fund costs presented in these statements, the full cost of the DCCA portion of

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

Notes to the Financial Statements

September 30, 2006 and 2005

the Longshore Program would include certain direct costs of ESA in the form of salaries and expenses for administration of the Longshore Program and allocated costs of ESA and other DOL agencies incurred in support of the Longshore Program. The full cost of the DCCA portion of the Longshore Program is included in the Consolidated Financial Statements of the U.S. Department of Labor.

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 Funds with U.S. Treasury are trust funds that are available to pay current liabilities and finance authorized purchase commitments.

(d) Investments

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

(e) Accounts Receivable, Net of Allowance

The amounts due as receivables are stated net of an allowance for uncollectible accounts. The allowance is estimated based on past experience in the collection of the receivables and an analysis of the outstanding balances. Also included as benefit overpayments receivable are Fund overpayments to beneficiaries made to individuals primarily from awarded compensation orders and corrections of payment computations.

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

Notes to the Financial Statements

September 30, 2006 and 2005

(f) *Accrued Benefits Payable*

The District of Columbia Workmen's Compensation Special Fund provides compensation and medical benefits for pre-July 26, 1982, work related injuries to employees of the District of Columbia. The Fund recognizes a liability for disability benefits payable to the extent of unpaid benefits applicable to the current period.

(g) *Assessment Overpayment by Carriers*

Assessment overpayments are current liabilities and are to be refunded upon insurance carrier or self-insured employer's request or applied to reduce future assessments.

(h) *Deferred Revenue*

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

(i) *Financing Sources Other Than Exchange Revenue*

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

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

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

Funds with U.S. Treasury at September 30, 2006 and 2005 consisted of cash deposits of \$75,967 and \$2,066,020 respectively. There was \$47 in cash deposits at September 30, 2006 and \$408 in cash deposits at September 30, 2005 being held as security by authority of Section 32 of the Longshore and Harbor Workers' Compensation Act in the Funds with U.S. Treasury balance. Section 32 funds relate to the default of self-insured employers and are available for payment of compensation and medical benefits to covered employees of the defaulted companies.

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

Notes to the Financial Statements

September 30, 2006 and 2005

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	\$ —	—	75,967	75,967	—	75,967

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	\$ —	—	2,066,020	2,066,020	—	2,066,020

(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	\$ 5,611,000	—	5,611,000	5,611,000
	September 30, 2005			
	Face Value	Net Discount	Market Value	Value
Intragovernmental securities: Marketable	\$ 3,000,000	—	3,000,000	3,000,000

Investments of \$54,100 and \$51,300 at September 30, 2006 and 2005, respectively are being held as security by authority of Section 32 of the Longshore and Harbor Workers' Compensation. Section 32 investments relate to the default of self-insured employers and are restricted. These investments are available for payment of compensation and medical benefits to covered employees of the defaulted companies. Investments at September 30, 2006 and 2005 consist of overnight securities and short-term U.S. Treasury Bills stated at amortized cost, which approximates market. Investments at September 30, 2006, bear an interest rate of 5.03 % compared to rates varying from

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

Notes to the Financial Statements

September 30, 2006 and 2005

1.32% 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 1.32% to 3.67% for fiscal year 2005.

(4) Accounts Receivable, Net

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

	<u>2006</u>	<u>2005</u>
Entity assets:		
Intragovernmental:		
Interest Receivable	\$ 784	—
Total Intragovernmental accounts receivable	<u>\$ 784</u>	<u>—</u>
Benefit overpayments	\$ 56,433	15,584
Assessments receivable	492,358	496,452
Less: allowance for doubtful accounts	<u>(137,197)</u>	<u>(128,009)</u>
Total accounts receivable from the public, net	<u>\$ 411,594</u>	<u>384,027</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 fiscal year 2006 and fiscal year 2005 consisted of the following:

	<u>Allowance</u>		<u>2006</u>		<u>Allowance</u>
	<u>October 1, 2005</u>	<u>Write</u>	<u>Revenue</u>	<u>Bad Debt</u>	<u>September 30, 2006</u>
		<u>Offs</u>	<u>Adjustment</u>		
Entity assets:					
Benefit overpayments	\$ (3,896)	—	—	(10,212)	(14,108)
Assessment receivable	<u>(124,113)</u>	<u>—</u>	<u>—</u>	<u>1,024</u>	<u>(123,089)</u>
	<u>\$ (128,009)</u>	<u>—</u>	<u>—</u>	<u>(9,188)</u>	<u>(137,197)</u>

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

Notes to the Financial Statements

September 30, 2006 and 2005

		2005			
	Allowance October 1, 2004	Write Offs	Revenue Adjustment	Bad Debt	Allowance September 30, 2005
Entity assets:					
Benefit overpayments	\$ (4,812)	—	—	916	(3,896)
Assessment receivable	(95,811)	—	(21,255)	(7,047)	(124,113)
	\$ (100,623)	—	(21,255)	(6,131)	(128,009)

(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	\$ 691,939	420,240
Defaulted employer liability:		
Held in investments	54,100	51,300
Held in cash	47	408
	54,147	51,708
Total other liabilities	\$ 746,086	471,948

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

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

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

Notes to the Financial Statements

September 30, 2006 and 2005

(6) Statement of Budgetary Resources

(a) Apportionment Categories of Obligations Incurred

Obligations incurred reported on the Statement of Budgetary Resources in FY 2006 and FY 2005 consisted of the following:

	<u>2006</u>	<u>2005</u>
Direct Obligations:		
Exempt from apportionment	\$ 10,153,891	10,577,595

(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	\$ 15	11	11
Longshore and Harbor Workers Compensation	203	133	132
Budget of the United States Government	\$ 218	144	143