

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, 2008 and 2007

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.

Eeliot P. Lewis

Assistant Inspector General for Audit

Date: February 20, 2009
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**LONGSHORE AND HARBOR WORKERS'
COMPENSATION ACT SPECIAL FUND**

Table of Contents

	Page
ACRONYMS	iii
Management's Discussion and Analysis	
Mission and Organizational Structure	1
Financial Highlights	1
Performance Goals and Results	2
Internal Controls and Systems	3
Known Risks and Uncertainties	4
Limitations of the Financial Statements	4
Independent Auditors' Report	7
FINANCIAL STATEMENTS	
Balance Sheets	11
Statements of Net Cost	12
Statements of Changes in Net Position	13
Statements of Budgetary Resources	14
NOTES TO THE FINANCIAL STATEMENTS	
Note 1 – Summary of Significant Accounting Policies	15
Note 2 – Funds with U.S. Treasury	18
Note 3 – Investments	19
Note 4 – Accounts Receivable, Net	20
Note 5 – Other Liabilities	21
Note 6 – Transfers to OWCP	22
Note 7 – Status of Budgetary Resources	22
Note 8 – Reconciliation of Budgetary Resources Obligated to Net Cost of Operations	23
Note 9 – Concentration of Risk	23

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

Acronyms

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

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

Management's Discussion and Analysis

September 30, 2008 and 2007

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 Longshore and Harbor Workers' Compensation Act Special Fund (the Fund) comprised primarily of employer contributions (assessments) and administered by the Division of Longshore and Harbor Workers' Compensation (DLHWC). In fiscal year (FY) 2008 and 2007, 4,533 and 4,728 injured workers and dependents received compensation benefits from the Fund.

The reporting entity is the Fund. Organizationally the Fund is administered by the Employment Standards Administration (ESA), an agency within the United States Department of Labor (DOL). Within ESA, the 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, Section 10(h) of the LHWCA 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 Section 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 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

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

Management's Discussion and Analysis

September 30, 2008 and 2007

\$126,784,708 in fiscal year 2008 and \$128,650,318 for fiscal year 2007. During fiscal years 2008 and 2007, 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. The AUP program recovered \$410,145 in fiscal year 2008 and \$2,133,496 in fiscal year 2007 for the Fund. These recoveries have and will continue to reduce carrier assessments and are reflected in the Assessments line on the Statement of Changes in Net Position.

Investment income for the Fund was \$1,045,091 for fiscal year 2008 compared to \$2,077,374 for fiscal year 2007. The average interest rate earned during fiscal year 2008 was 2.68% compared to 5.12% for fiscal year 2007. The Fund's costs remained relatively stable compared to fiscal year 2007; \$130,084,569 for fiscal year 2008 compared to \$129,041,381 for fiscal year 2007.

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

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

Management's Discussion and Analysis

September 30, 2008 and 2007

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 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.

In FY 2008, the average time to resolve disputed issues in Longshore claims was 239 days, representing a 2.4% improvement over the target of 245 days. The average time to resolve disputed issues in FY 2007 was 230 days, a 7.3% improvement over the target of 248 days.

Longshore management continues to focus on improving mediation skills and timeliness of district office intervention when disputes arose, with added emphasis on the accuracy of dispute tracking data.

Internal Controls and Systems

The Longshore and Harbor Workers' Compensation Division's Branch of Financial Management and Insurance is a very small unit comprised of six employees and one supervisor, all working in very close proximity to each other. Unethical behavior is guarded against by carefully segregated duties, carefully assigned roles which are password protected, and by close supervision. Much of the oversight, evaluation, monitoring, and control and almost all of the supervisory activity is informal, done on a face-to-face basis. Similarly, each of the district offices is in itself a small unit, operating in the same fashion as the Branch of Financial Management and Insurance.

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

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

Cases paid by the Special Fund are paid as a result of a formal Compensation Order issued by a District Director or Administrative Law Judge, setting forth precisely what

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

Management's Discussion and Analysis

September 30, 2008 and 2007

payment is due and to whom the payment is due. Each new case coming in for Special Fund payment is prepared and reviewed by a total of five different employees before payment is made, thus ensuring accuracy.

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

Known Risks and Uncertainties

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

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

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

Limitations of the Financial Statements

The following limitations are part of the financial statements:

- The financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of the Chief Financial Officers Act of 1990, United States Code (U.S.C.) 3515 (b).

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

Management's Discussion and Analysis

September 30, 2008 and 2007

- While the statements have been prepared from the books and records of the Fund in accordance with the formats prescribed by the Office of Management and Budget (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

Mr. John R. Correll, Deputy Assistant Secretary for Operations
Employment Standards Administration
U.S. Department of Labor

We have audited the accompanying balance sheets of the U.S. Department of Labor's (DOL) Longshore and Harbor Workers' Compensation Act Special Fund (the Fund) as of September 30, 2008 and 2007, and the related statements of net cost, changes in net position, and budgetary resources (hereinafter referred to as "financial statements") for the years then ended. The objective of our audits was to express an opinion on the fair presentation of these financial statements. In connection with our fiscal year 2008 audit, we also considered the Fund's internal controls over financial reporting and tested the Fund's compliance with certain provisions of applicable laws and regulations that could have a direct and material effect on these financial statements.

SUMMARY

As stated in our opinion on the financial statements, we concluded that the Fund's financial statements as of and for the years ended September 30, 2008 and 2007, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses as defined in the Internal Control Over Financial Reporting section 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 under *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*.

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



OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying balance sheets of the U.S. Department of Labor's Longshore and Harbor Workers' Compensation Act Special Fund as of September 30, 2008 and 2007, and the related statements of net cost, changes in net position and budgetary resources for the years then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of Labor's Longshore and Harbor Workers' Compensation Act Special Fund as of September 30, 2008 and 2007, and its net costs, changes in net position, and budgetary resources for the years then ended, in conformity with U.S. generally accepted accounting principles.

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

In our fiscal year 2008 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.



COMPLIANCE AND OTHER MATTERS

The results of certain 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* or OMB Bulletin No. 07-04.

* * * * *

RESPONSIBILITIES

Management's Responsibilities. Management is responsible for the financial statements; establishing and maintaining effective internal control; and complying with laws and regulations applicable to the Fund.

Auditors' Responsibilities. Our responsibility is to express an opinion on the fiscal year 2008 and 2007 financial statements of the Fund based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

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

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



In planning and performing our fiscal year 2008 audit, we considered the Fund's internal control over financial reporting by obtaining an understanding of the Fund's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to express an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

As part of obtaining reasonable assurance about whether the Fund's fiscal year 2008 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.

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

February 11, 2009

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

Balance Sheets

September 30, 2008 and 2007

Assets	2008	2007
Intra-governmental assets:		
Funds with U.S. Treasury (Note 2)	\$ 735,164	153,564
Investments (Note 3)	61,905,000	69,979,000
Accounts receivable (Note 4)	—	15,512
Total intra-governmental assets	<u>62,640,164</u>	<u>70,148,076</u>
Accounts receivable, net of allowance (Note 4)	<u>7,970,749</u>	<u>3,802,861</u>
Total assets	<u>\$ 70,610,913</u>	<u>73,950,937</u>
Liabilities and Net Position		
Liabilities:		
Accrued benefits payable	\$ 4,570,584	3,655,366
Deferred revenue	31,227,620	31,292,449
Other liabilities (Note 5)	<u>7,568,352</u>	<u>8,115,123</u>
Total liabilities	<u>43,366,556</u>	<u>43,062,938</u>
Net position:		
Cumulative results of operations	<u>27,244,357</u>	<u>30,887,999</u>
Total liabilities and net position	<u>\$ 70,610,913</u>	<u>73,950,937</u>

See accompanying notes to financial statements.

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

Statements of Net Cost

Years ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Special fund net cost of operations:		
Second injury compensation, Section 8(f)	\$ 119,131,585	117,001,637
Wage increase compensation, Section 10(h)	1,672,889	1,796,225
Compensation payment for self-insurer in default, Section 18(b)	6,035,016	5,884,937
Rehabilitation services, Section 39 (c)	2,330,366	2,645,517
Bankrupt self-insured employers	914,713	1,713,065
Net cost of operations	<u>\$ 130,084,569</u>	<u>129,041,381</u>

See accompanying notes to financial statements.

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

Statements of Changes in Net Position
Years ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cumulative results of operations, beginning	\$ 30,887,999	30,960,157
Budgetary financing sources:		
Transfers in/out without reimbursement (Note 6)	(2,022,047)	(2,041,885)
Non-exchange revenues:		
Interest	1,045,091	2,077,374
Fines and Penalties	633,175	283,416
Assessments	126,784,708	128,650,318
Total non-exchange revenues	<u>128,462,974</u>	<u>131,011,108</u>
Total financing sources	126,440,927	128,969,223
Net cost of operations	<u>(130,084,569)</u>	<u>(129,041,381)</u>
Net position, end of period	<u>\$ 27,244,357</u>	<u>30,887,999</u>

See accompanying notes to financial statements.

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

Statements of Budgetary Resources

Years ended September 30, 2008 and 2007

	2008	2007
Budgetary resources:		
Unobligated balance, brought forward	\$ 66,456,691	67,869,658
Budget authority		
Appropriations received (assessments)	122,377,055	130,467,193
Spending authority from offsetting collections	143,902	38,741
Temporary not available pursuant to Public Law	20,480	—
Total budgetary resources	\$ 188,998,128	198,375,592
Status of Budgetary Resources:		
Obligations Incurred (Note 7)		
Direct	\$ 130,928,574	131,918,901
Unobligated balances - available:		
Apportioned		
Other available - exempt from apportionment	58,069,554	66,456,691
Total status of budgetary resources	\$ 188,998,128	198,375,592
Change in obligated balance:		
Obligated balance, net		
Unpaid obligations, brought forward, October 1	\$ 3,655,366	5,409,871
Obligations Incurred, net	130,928,574	131,918,901
Less: Gross Outlays	(130,013,356)	(133,673,406)
Obligated balance, net, end of period		
Unpaid obligations	\$ 4,570,584	3,655,366
Outlays:		
Gross Outlays	\$ 130,013,356	133,673,406
Less: Offsetting collections	(143,902)	(38,741)
Net outlays	\$ 129,869,454	133,634,665

See accompanying notes to financial statements.

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

Notes to the Financial Statements

Years ended September 30, 2008 and 2007

(1) Summary Of Significant Accounting Policies

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

(a) Reporting Entity

These financial statements present the financial position, net cost of operations, changes in net position and budgetary resources of the Longshore and Harbor Workers' Compensation Act Special Fund (the Fund). The Fund is administered by the Employment Standards Administration (ESA) which is an agency within the United States Department of Labor. Within ESA, the Division of Longshore and Harbor Workers' Compensation has direct responsibility for administration of the Fund. The Fund offers compensation, and in certain cases, medical care payments to employees disabled from injuries which occurred on the navigable waters of the United States, or in adjoining areas used for loading, unloading, repairing, or building a vessel. The Fund also extends benefits to dependents if any injury resulted in the employee's death.

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

(b) Basis of Accounting and Presentation

These financial statements present the financial position, net cost of operations, changes in net position and budgetary resources of the Longshore and Harbor Workers' Compensation Act Special Fund (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 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

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

Notes to the Financial Statements

Years ended September 30, 2008 and 2007

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.

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

Notes to the Financial Statements

Years ended September 30, 2008 and 2007

(e) *Accounts Receivable, Net of Allowance*

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

(f) *Accrued Benefits Payable*

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

(g) *Deferred Revenue*

Deferred revenues represent the unearned assessment revenue 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. Deferred revenues reported on the balance sheets are considered "Other Liabilities" under OMB Circular A-136.

(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 and penalties levied against the public and interest income from investments.

The Fund's primary source of revenue is annual assessments levied on insurance carriers and self-insured employers. Assessments are recognized as non-exchange revenue when due. Included in assessment revenues in the accompany Statement of Changes and Net Position are recoveries of amounts based on previously under-reported payments by self-insures or carriers. These reassessments primarily result from the application of Agreed Upon Procedures (AUP) on reported carrier data. Recoveries amounted to \$410,145

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

Notes to the Financial Statements

Years ended September 30, 2008 and 2007

and \$2,133,496 for the fiscal years ended September 30, 2008 and 2007. The Fund receives interest on Fund investments and on Federal funds in the possession of non-Federal entities. The Fund also receives revenue from penalties assessed in accordance with various sections of the LHWCA.

(2) Funds with U.S. Treasury

Funds with U.S. Treasury at September 30, 2008 and 2007 consisted of cash deposits of \$735,164 and \$153,564, respectively. These cash deposits at September 30, 2008 and 2007 included \$267 and \$369, 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, 2008 consisted of the following:

<u>(In Dollars)</u>	Entity Assets					<u>Total</u>
	Unobligated	Unobligated	Obligated	Total	Non-entity	
	Balance	Balance	Balance Not			
Special Fund	<u>Available</u>	<u>Unavailable</u>	<u>Yet Disbursed</u>	<u>Entity Assets</u>	<u>Assets</u>	<u>Total</u>
	\$ —	—	735,164	735,164	—	735,164

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

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

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

Notes to the Financial Statements

Years ended September 30, 2008 and 2007

(3) Investments

Investments at September 30, 2008 and 2007 consisted of the following:

		September 30, 2008			
(In Dollars)		<u>Face Value</u>	<u>Premium (Discount)</u>	<u>Net Value</u>	<u>Market Value</u>
Intragovernmental securities:					
Marketable	\$	<u>61,905,000</u>	<u>—</u>	<u>61,905,000</u>	<u>61,905,000</u>
		September 30, 2007			
(In Dollars)		<u>Face Value</u>	<u>Premium (Discount)</u>	<u>Net Value</u>	<u>Market Value</u>
Intragovernmental securities:					
Marketable	\$	<u>69,979,000</u>	<u>—</u>	<u>69,979,000</u>	<u>69,979,000</u>

Investments of \$7,296,300 and \$7,996,900 at September 30, 2008 and 2007, 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, 2008 and 2007 consist of overnight securities. Investments at September 30, 2008 bear an interest rate of 0.33% compared to an interest rate of 3.99% for September 30, 2007. Interest rates on securities bought and sold during fiscal year 2008 ranged from 0.25% to 4.95% compared to 2.16% to 5.35% for fiscal year 2007.

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

Notes to the Financial Statements

Years ended September 30, 2008 and 2007

(4) Accounts Receivable, Net

Accounts receivable at September 30, 2008 and 2007 consisted of the following:

<u>(In Dollars)</u>	<u>2008</u>	<u>2007</u>
Entity assets:		
Intragovernmental:		
Interest Receivable	\$ —	15,512
Total Intragovernmental accounts receivable	\$ —	15,512
Benefit overpayments	\$ 2,386,109	2,747,219
Assessments receivable	6,889,971	2,323,263
Less: allowance for doubtful accounts	(1,305,331)	(1,267,621)
Total accounts receivable from the public, net	\$ 7,970,749	3,802,861

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, 2008 and 2007

Changes in the allowance for doubtful accounts during fiscal year 2008 and fiscal year 2007 consisted of the following:

(In Dollars)	2008				Allowance September 30, 2008
	Allowance October 1, 2007	Write Offs	Revenue Adjustment	Bad Debt	
Entity assets:					
Benefit overpayments \$	(686,805)	—	—	(274,027)	(960,832)
Assessment receivable	(580,816)	82,405	—	153,912	(344,499)
\$	(1,267,621)	82,405	—	(120,115)	(1,305,331)

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

(5) Other Liabilities

Other liabilities at September 30, 2008 and 2007 consisted of the following current liabilities:

(In Dollars)	2008	2007
Other liabilities:		
Assessment overpayments by carriers	\$ 271,785	117,855
Defaulted employer liability:		
Held in investments	7,296,300	7,996,900
Held in cash	267	368
	7,296,567	7,997,268
Total other liabilities	\$ 7,568,352	8,115,123

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

Years ended September 30, 2008 and 2007

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) Transfers to OWCP

The Fund reimburses the Office of Workers' Compensation Programs (OWCP) (a related entity within the Employment Standards Administration) for rehabilitation services provided to eligible claimants and certain direct expenses associated with administrative support of the Fund. Approved transfers out to the OWCP were \$2,022,047 in 2008 and \$2,041,885 in 2007. Transfers are made from the Special Fund in accordance with sections 39(c), 44(d), and 44(j) of the Longshore and Harbor Workers' Compensation Act.

(7) Status of Budgetary Resources

(a) Apportionment Categories of Obligations Incurred

<u>(In Dollars)</u>	<u>2008</u>	<u>2007</u>
Direct Obligations:		
Exempt from apportionment	\$ 130,928,574	131,918,901

(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, 2007 is shown below:

<u>(Dollars in Millions)</u>	<u>2007</u>		
	<u>Budgetary Resources</u>	<u>Obligations Incurred</u>	<u>Outlays</u>
Statement of Budgetary Resources - LSHW	\$ 198	132	134
Statement of Budgetary Resources - DCCA	17	10	10
Total Statement of Budgetary Resources	215	142	144
Budget of the United States Government	\$ 215	142	144

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

Notes to the Financial Statements

Years ended September 30, 2008 and 2007

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

	<u>2008</u>	<u>2007</u>
Budgetary resources obligated:		
Obligations incurred	\$ 130,928,574	131,918,901
Other resources:		
Transfers out	<u>(2,022,047)</u>	<u>(2,041,885)</u>
Total resources used to finance activities	<u>128,906,527</u>	<u>129,877,016</u>
Resources used to finance items not part of the net cost of operations		
Resources that finance the acquisition of assets	<u>(143,902)</u>	<u>(38,741)</u>
Total resources used to finance items not part of the net cost of operations	<u>(143,902)</u>	<u>(38,741)</u>
Total resources used to finance the net cost of operations	<u>128,762,625</u>	<u>129,838,275</u>
Components not requiring or generating resources:		
Revaluation of assets and liabilities	960,833	(263,557)
Benefit overpayments	<u>361,111</u>	<u>(533,337)</u>
Total components of net cost of operations that will not require or generate resources in the current period	<u>1,321,944</u>	<u>(796,894)</u>
Net cost of operations	<u>\$ 130,084,569</u>	<u>129,041,381</u>

(9) Concentration of Risk

The Fund makes assessments to authorized insurers and self-insurers one year at a time for current expenses; there is no reserve for future Fund obligations. In keeping with the requirement of section 44 of the Longshore Act, obligations are paid as they are incurred. Assessments are based on compensation and medical benefits paid in the prior calendar year.