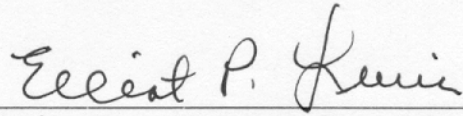


**U. S. DEPARTMENT OF LABOR
EMPLOYMENT STANDARDS ADMINISTRATION**

**LONGSHORE AND HARBOR WORKERS'
COMPENSATION ACT SPECIAL FUND
FINANCIAL STATEMENTS
SEPTEMBER 30, 2001 AND 2000**

This audit was performed by Kearney & Company, Certified Public Accountants, under contract to the Inspector General, and, by acceptance, it becomes a report of the Office of Inspector General.



Acting Deputy Inspector General for Audit

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

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

ACRONYMS

CFO	Chief Financial Officer
DCCA	District of Columbia Workmen's Compensation Act Special Fund
DLHWC	Division of Longshore and Harbor Workers' Compensation
DOL	Department of Labor
ESA	Employment Standards Administration
FASAB	Federal Accounting Standards Advisory Board
FMFIA	Federal Managers' Financial Integrity Act
FUND	Longshore and Harbor Workers' Compensation Act Special Fund
FY	Fiscal Year
JFMIP	Joint Financial Management Improvement Project
LCMS	Longshore Case Management System
LHWCP	Longshore and Harbor Workers' Compensation Program
OCFO	Office of the Chief Financial Officer
OMB	Office of Management and Budget
OWCP	Office of Workers' Compensation Programs

Ms. VICTORIA LIPNIC
ASSISTANT SECRETARY
EMPLOYMENT STANDARDS
ADMINISTRATION
U.S. DEPARTMENT OF LABOR

The *Chief Financial Officers Act of 1990* (CFO Act) requires agencies to report annually to Congress on their financial status and any other information needed to fairly present the agencies' financial position and results of operations. The Longshore and Harbor Workers' Compensation Act Special Fund (the Fund) is included in the United States Department of Labor (DOL) annual financial statements issued to meet the CFO Act reporting requirements.

The objective of our audit is to express an opinion on the fair presentation of the Fund's Fiscal Year 2001 financial statements. Our objective also is to obtain an understanding of the Fund's internal control and test compliance with laws and regulations that could have a direct and material effect on the financial statements.

We have audited the balance sheet of the Fund as of September 30, 2001, and the statements of net cost, changes in net position, budgetary resources, and financing for the year then ended.

These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

The financial statements of the Fund as of and for the year ended September 30, 2000 were audited by other auditors whose report dated February 15, 2001 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards

applicable to financial statements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 01-02, *Audit Requirements for Federal Financial Statements*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

OPINION ON FINANCIAL STATEMENTS

In our opinion the financial statements referred to above present fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America:

- the assets, liabilities, and net position of the Fund as of September 30, 2001; and
- the net cost, changes in net position, budgetary resources, reconciliation of net cost to budgetary resources for the year ended September 30, 2001.

OTHER ACCOMPANYING INFORMATION

Our audit was conducted for the purpose of forming an opinion on the Fund's principal financial statements taken as a whole. The information contained in the Management Discussion and Analysis section of the Fund's annual financial statements is not a required part of the principal financial statements. The information is required by the Federal

Accounting Standards Advisory Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the information. However, we did not audit the information and express no opinion on it.

REPORT ON INTERNAL CONTROL

In planning and performing our audit, we considered the Fund's internal control over financial reporting by obtaining an understanding of the Fund's internal control, determined whether these internal controls had been placed in operation, assessed control risk, and performed 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 OMB Bulletin 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982 (FMFIA)*, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

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 reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Fund's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. 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 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, losses, or noncompliance may nevertheless occur and not be detected. However, we noted no matters involving the internal control and its operations that we consider to be material weaknesses as defined above.

With respect to internal control related to performance measures included in the Management Discussion and Analysis, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions as required by OMB Bulletin 01-02. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

The management of the Fund is responsible for complying with laws and regulations applicable to the Fund. As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain laws and regulations specified in OMB Bulletin 01-02, including the requirements referred to in the *Federal Financial Management Improvement Act of 1996 (FFMIA)*. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the Fund.

The results of our tests of compliance with the laws and regulations described in the preceding paragraph, exclusive of FFMIA, disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* or OMB Bulletin 01-02.

Under FFMIA, we are required to report whether the Fund's financial management systems substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger (SGL) at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803 (a) requirements. The results of our tests disclosed no instances in which the Fund's financial management systems did not substantially comply with the three requirements discussed above.

Providing an opinion on compliance with certain provisions of 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 Longshore and Harbor Workers' Compensation Act Special Fund management, U.S. Department of Labor management, the Office of Management and Budget, and Congress. This report is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in blue ink, appearing to read "Kearney & Company", is written over the printed name of the firm.

Kearney & Company P.C.
December 14, 2001

U. S. DEPARTMENT OF LABOR
EMPLOYMENT STANDARDS ADMINISTRATION

SECTION I
MANAGEMENT DISCUSSION
AND ANALYSIS

Fiscal Year 2001
Financial Statements

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

**MANAGEMENT DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2001**

MISSION AND ORGANIZATIONAL STRUCTURE

The Longshore and Harbor Workers' program mission is to effectively administer a program of compensation and medical benefits to covered workers who are injured on the job or suffer from occupational disease.

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

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

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

FINANCIAL HIGHLIGHTS

The majority of revenue of the Fund \$133,948,006 is generated through annual recurring assessments paid by self-insured employers and insurance carriers. This compares with revenue of \$132,300,020 for FY 2000. During FY 2001 and 2000, substantial recoveries were made for the Fund due to activities involving audits of Forms LS-513, Report of Payments (used in the calculation of the annual assessment), and negotiation/collection of past due assessments. Equally important, the audits have uncovered common reporting errors and other record-keeping mistakes which, when discovered, are being eliminated. The on-going audit program recovered \$2,966,396 in FY 2001 and \$51,276 in FY 2000 for the Fund. These recoveries have and will continue to reduce carrier assessments.

Investment income for the Fund was \$1,890,879 for FY 2001 compared to \$2,457,542 for FY 2000. The average interest rate earned during FY 2001 was 4.28 percent compared to 5.49 percent for FY 2000. The Fund's costs remained relatively stable compared to FY 2000; \$130,725,941 for FY 2001 compared to \$129,452,878 for FY 2000.

PERFORMANCE GOALS AND RESULTS

The DLHWC supports the Department of Labor's **Strategic Goal 2 - *A Secure Workforce***. This goal broadly promotes the economic security of workers and families. In particular, the DLHWC program supports **Outcome Goal 2.2 - *To Protect Worker Benefits***. The Department of Labor plays a large role in ensuring that worker benefits are protected and that employers administer benefit programs in an appropriate way. The Longshore program assists in meeting this outcome goal.

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

**MANAGEMENT DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2001**

PERFORMANCE GOALS AND RESULTS - Continued

The Longshore program also supports ESA's **Strategic Goal 2**. This goal simply stated is to *secure public confidence through excellence in the management and delivery of ESA's programs and services*. The Longshore program supports this ESA strategic goal by subscribing to ESA's **Outcome Goal 2.4**. This outcome goal is to *foster organizational excellence and increase collaboration*. In order to accomplish this outcome Longshore has established the following performance goal for FY 2001:

To reduce the average time required to resolve disputed issues in Longshore and Harbor Worker's Compensation Program contested cases, establish a performance baseline by the end of FY 2001 and begin data collection for performance tracking.

This goal was met. A performance baseline of 242 days was established and performance data tracking is underway.

The Longshore and Harbor Workers' Compensation Act provides medical benefits, compensation for lost-wages and rehabilitation services for job-related injuries, diseases or death of private-sector workers in certain maritime and related employment. Generally, benefits are paid directly from private funds by an authorized self-insured employer or through an authorized insurance carrier. Cases meeting the requirements of the Longshore and Harbor Workers' Compensation statute are paid from the Fund comprised primarily of employer contributions (assessments) and administered by the DLHWC. In FY 2001, 6,350 workers (customers) received compensation benefits from the Fund.

LIMITATIONS OF THE FINANCIAL STATEMENTS

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

- The financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of the Chief Financial Officers Act of 1990, U.S.C. 3515 (b).
- While the statements have been prepared from the books and records of the Fund in accordance with the formats prescribed by OMB, the statements are different from the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.
- The statements should be read with the realization that they are for a component of a sovereign entity, that liabilities cannot be liquidated without the enactment of an appropriation, and that the payment of all liabilities other than for contracts can be abrogated by the sovereign entity.

U. S. DEPARTMENT OF LABOR
EMPLOYMENT STANDARDS ADMINISTRATION

SECTION II
FINANCIAL STATEMENTS

Fiscal Year 2001 and 2000
Financial Statements

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

**BALANCE SHEETS
As Of September 30, 2001 and 2000**

	2001	2000
ASSETS		
Intragovernmental assets		
Funds with U.S. Treasury (Note 2)	\$ 274,210	\$ 450,598
Investments (Note 3)	<u>58,712,126</u>	<u>58,378,978</u>
Total intragovernmental assets	58,986,336	58,829,576
Accounts receivable, net (Note 4)	<u>3,537,853</u>	<u>1,226,777</u>
Total Assets	<u>\$ 62,524,189</u>	<u>\$ 60,056,353</u>
 LIABILITIES AND NET POSITION		
Liabilities		
Accrued benefits payable	\$ 1,738,899	\$ 1,284,834
Deferred revenue	32,366,805	33,170,925
Other liabilities (Note 5)	<u>1,625,048</u>	<u>1,939,101</u>
Total liabilities	35,730,752	36,394,860
Net position		
Cumulative results of operations	<u>26,793,437</u>	<u>23,661,493</u>
Total Liabilities and Net Position	<u>\$ 62,524,189</u>	<u>\$ 60,056,353</u>

The accompanying notes are an integral part of these statements.

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

**STATEMENTS OF NET COST
For The Years Ended September 30, 2001 and 2000**

	2001	2000
SPECIAL FUND NET COST OF OPERATIONS		
With the public		
Second injury compensation, Section 8(f)	\$ 120,088,037	\$ 119,537,494
Wage increase compensation, Section 10(h)	2,301,236	2,470,725
Compensation payment for self-insurer in default, Section 18(b)	4,699,839	4,780,069
Rehabilitation services 39 (c)	3,138,657	2,498,457
Rehabilitation maintenance, Section 8(g)	1,016	25,073
Medical services, Section 7(e)	1,647	934
Disbursement – bankrupt self-insured employers	<u>495,509</u>	<u>140,126</u>
Net cost of operations	<u>\$ 130,725,941</u>	<u>\$ 129,452,878</u>

The accompanying notes are an integral part of these statements.

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

**STATEMENTS OF CHANGES IN NET POSITION
For The Years Ended September 30, 2001 and 2000**

	2001	2000
CHANGE IN NET POSITION		
Net cost of operations	<u>\$ (130,725,941)</u>	<u>\$ (129,452,878)</u>
Net financing sources		
Non-exchange revenue		
Assessments	133,948,006	132,300,020
Interest	<u>1,890,879</u>	<u>2,457,542</u>
Total	135,838,885	134,757,562
Transfers-out (Note 6)	<u>(1,981,000)</u>	<u>(1,740,000)</u>
Total net financing sources	<u>133,857,885</u>	<u>133,017,562</u>
Net results of operations	3,131,944	3,564,684
Net position, beginning of period	<u>23,661,493</u>	<u>20,096,809</u>
Net position, end of period	<u>\$ 26,793,437</u>	<u>\$ 23,661,493</u>

The accompanying notes are an integral part of these statements.

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

**STATEMENTS OF BUDGETARY RESOURCES
For The Years Ended September 30, 2001 and 2000**

	2001	2000
BUDGETARY RESOURCES (Note 7)		
Budgetary authority	\$ 133,146,965	\$ 136,239,448
Unobligated balances, beginning	<u>57,053,214</u>	<u>52,196,458</u>
Total budgetary resources	<u>\$ 190,200,179</u>	<u>\$ 188,435,906</u>
 STATUS OF BUDGETARY RESOURCES		
Obligations incurred (Note 7)	\$ 133,010,567	\$ 131,382,692
Unobligated balances available	568,668	1,397,519
Unobligated balances not available	<u>56,620,944</u>	<u>55,655,695</u>
Total status of budgetary resources	<u>\$ 190,200,179</u>	<u>\$ 188,435,906</u>
 OUTLAYS (Note 7)		
Obligations incurred	\$ 133,010,567	\$ 131,382,692
Obligated balance, net, beginning	1,143,866	909,732
Less obligated balance, net, ending	<u>(1,597,930)</u>	<u>(1,143,865)</u>
Total outlays	<u>\$ 132,556,503</u>	<u>\$ 131,148,559</u>

The accompanying notes are an integral part of these statements.

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

**STATEMENTS OF FINANCING
For The Years Ended September 30, 2001 and 2000**

	2001	2000
OBLIGATIONS AND NON-BUDGETARY RESOURCES		
Obligations incurred	\$ 133,010,567	\$ 131,382,692
Transfers, net	<u>(1,981,000)</u>	<u>(1,740,000)</u>
Total obligations as adjusted and non-budgetary resources	<u>131,029,567</u>	<u>129,642,692</u>
 COSTS OF OPERATIONS NOT CONSUMING RESOURCES		
Benefit overpayments	<u>(303,626)</u>	<u>(330,782)</u>
Total costs of operations not consuming resources	<u>(303,626)</u>	<u>(330,782)</u>
 FINANCING SOURCES YET TO BE PROVIDED	<u>-</u>	<u>140,968</u>
 Net cost of operations	<u>\$ 130,725,941</u>	<u>\$ 129,452,878</u>

The accompanying notes are an integral part of these statements.

U. S. DEPARTMENT OF LABOR
EMPLOYMENT STANDARDS ADMINISTRATION

SECTION III
NOTES TO THE
FINANCIAL STATEMENTS

Fiscal Year 2001 and 2000
Financial Statements

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

**NOTES TO THE FINANCIAL STATEMENTS
For The Years Ended September 30, 2001 and 2000**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

B. Basis of Accounting and Presentation

These financial statements present the financial position, net cost of operations, changes in net position, budgetary resources and financing and activities of the Longshore and Harbor Workers' Compensation Act Special Fund (Fund), in accordance with accounting principles generally accepted in the United States of America and the form and content requirements of OMB Bulletin 97-01. These financial statements have been prepared from the books and records of the Fund. These financial statements are not intended to present, and do not present, the full cost of the Longshore and Harbor Workers' Compensation Act Program (Longshore Program). In addition to the Fund costs presented in these statements, the full cost of the Longshore Program would include certain direct costs of ESA in the form of 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.

Accounting principles generally accepted in the United States of America 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.

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

**NOTES TO THE FINANCIAL STATEMENTS
For The Years Ended September 30, 2001 and 2000**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 overpayments made to individuals who were determined ineligible to receive benefits.

F. Accounts Payable

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

G. Deferred Revenue

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

H. Financing Sources Other Than Exchange Revenue

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

The Fund's primary source of revenue is annual assessments levied on insurance carriers and self-insured employers.

Assessments are recognized as non-exchange revenue when due. Included in revenues are recoveries of amounts reassessed to carriers related to prior years. These reassessments primarily result from audits of reported carrier data. Recoveries amounted to \$2,966,396 and \$52,176 during the fiscal years ended September 30, 2001 and 2000, respectively.

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

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

**NOTES TO THE FINANCIAL STATEMENTS
For The Years Ended September 30, 2001 and 2000**

NOTE 2 - FUNDS WITH U.S. TREASURY

Funds with U.S. Treasury at September 30, 2001 and 2000 consisted of the following:

<u>Entity Assets – September 30, 2001</u>				
	<u>Obligated</u>	<u>Unobligated</u>		
		<u>Available</u>	<u>Restricted</u>	<u>Total</u>
Trust funds	<u>\$ -</u>	<u>\$ 274,210</u>	<u>\$ -</u>	<u>\$ 274,210</u>

<u>Entity Assets – September 30, 2000</u>				
	<u>Obligated</u>	<u>Unobligated</u>		
		<u>Available</u>	<u>Restricted</u>	<u>Total</u>
Trust funds	<u>\$ -</u>	<u>\$ 450,598</u>	<u>\$ -</u>	<u>\$ 450,598</u>

Funds with the U.S. Treasury at September 30, 2001 and 2000 include \$1,917 and \$62,544 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 and are available for payment of compensation and medical benefits to covered employees of the defaulted companies.

NOTE 3 - INVESTMENTS

Investments at September 30, 2001 and 2000 consisted of the following:

<u>September 30, 2001</u>				
	<u>Face Value</u>	<u>Discount</u>	<u>Net Value</u>	<u>Market Value</u>
Intragovernmental securities				
Marketable	<u>\$ 59,082,000</u>	<u>\$ (369,874)</u>	<u>\$ 58,712,126</u>	<u>\$ 58,712,126</u>

<u>September 30, 2000</u>				
	<u>Face Value</u>	<u>Discount</u>	<u>Net Value</u>	<u>Market Value</u>
Intragovernmental securities				
Marketable	<u>\$ 59,144,000</u>	<u>\$ (765,022)</u>	<u>\$ 58,378,978</u>	<u>\$ 58,378,978</u>

Investments of \$1,130,562 and \$912,871 for 2001 and 2000 are being held as security by authority of Section 32 of the Longshore and Harbor Workers' Compensation Act. These investments are available for payment of compensation and

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

**NOTES TO THE FINANCIAL STATEMENTS
For The Years Ended September 30, 2001 and 2000**

NOTE 3 – INVESTMENTS - Continued

medical benefits to covered employees of the defaulted companies. Investments at September 30, 2001 and 2000 consist of short-term U.S. Treasury Bills and are stated at amortized cost which approximates market. Investments at September 30, 2001 bear interest rates varying from 2.24% to 3.44% compared to rates varying from 5.84% to 6.09% for 2000. Interest rates on securities bought and sold during fiscal year 2001 ranged from 1.74% to 6.16% compared to 4.53% to 6.09% for fiscal year 2000.

NOTE 4 - ACCOUNTS RECEIVABLE, NET

Accounts receivable at September 30, 2001 and 2000 consisted of the following:

	<u>2001</u>	<u>2000</u>
Entity assets		
Benefit overpayments	\$ 1,384,408	\$ 1,080,777
Assessments receivable	2,351,723	310,832
Less: allowance for doubtful accounts	<u>(198,278)</u>	<u>(164,837)</u>
Total accounts receivable, net	<u>\$ 3,537,853</u>	<u>\$ 1,226,777</u>

Assessments receivable represent the unpaid annual assessments from the current and prior years. Accounts receivable from overpayments to claimants arise primarily from amended compensation orders and corrections of payment computations. These receivables are being primarily recovered by partial and total withholding of benefit payments.

Changes in the allowance for doubtful accounts during 2001 and 2000 consisted of the following:

	<u>September 30, 2001</u>			
	<u>Allowance</u> <u>9-30-00</u>	<u>Writeoffs</u>	<u>Revenue</u> <u>Adjustment</u>	<u>Allowance</u> <u>9-30-01</u>
Entity assets				
Benefit overpayments	\$ (28,260)	\$ -	\$ -	\$ (28,260)
Assessment receivable	<u>(136,577)</u>	<u>2,552,939</u>	<u>(2,586,380)</u>	<u>(170,018)</u>
	<u>\$ (164,837)</u>	<u>\$ 2,552,939</u>	<u>\$ (2,586,380)</u>	<u>\$ (198,278)</u>

	<u>September 30, 2000</u>			
	<u>Allowance</u> <u>9-30-99</u>	<u>Writeoffs</u>	<u>Revenue</u> <u>Adjustment</u>	<u>Allowance</u> <u>9-30-00</u>
Entity assets				
Benefit overpayments	\$ (15,167)	\$ -	\$ (13,093)	\$ (28,260)
Assessment receivable	<u>(600,000)</u>	<u>458,343</u>	<u>5,080</u>	<u>(136,577)</u>
	<u>\$ (615,167)</u>	<u>\$ 458,343</u>	<u>\$ (8,013)</u>	<u>\$ (164,837)</u>

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

**NOTES TO THE FINANCIAL STATEMENTS
For The Years Ended September 30, 2001 and 2000**

NOTE 5 - OTHER LIABILITIES

Other liabilities at September 30, 2001 and 2000 consisted of the following current liabilities:

	<u>2001</u>	<u>2000</u>
Other liabilities		
Assessment overpayments by carriers	\$ <u>492,569</u>	\$ <u>963,686</u>
Defaulted employer liability		
Held in investments	1,130,562	912,871
Held in cash	<u>1,917</u>	<u>62,544</u>
	<u>1,132,479</u>	<u>975,415</u>
 Total other liabilities	 <u>\$ 1,625,048</u>	 <u>\$ 1,939,101</u>

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

Defaulted employer liability relates to funds and investments held by the Longshore Special Fund which are being held as security by authority of Section 32 of the Act. These funds and investments are available for compensation and medical benefits to covered employees of the defaulted companies. Management estimates that these funds and investments held will not be sufficient to cover the future benefits associated with the covered employees.

NOTE 6 - RELATED PARTY TRANSACTIONS

The Fund reimburses the Office of Workers' Compensation Programs (OWCP) (a related entity within the Employment Standards Administration) for rehabilitation services provided to eligible claimants and certain direct expenses associated with administrative support of the Fund. Amounts paid to the OWCP were \$1,981,000 in 2001 and \$1,740,000 in 2000.

NOTE 7 - RECONCILIATION TO THE BUDGET

A reconciliation of budgetary resources, obligations incurred and outlays, as presented in the Statement of Budgetary Resources to amounts included in the Budget of the United States Government for the years ended September 30, 2001 and 2000 are shown below:

(Dollars in Millions)	<u>September 30, 2001</u>		
	Budgetary Resources	Obligations <u>Incurred</u>	<u>Outlays</u>
Statement of Budgetary Resources	\$ 190	\$ 133	\$ 133
Budget of the United States Government	\$ 190	\$ 133	\$ 133

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

**NOTES TO THE FINANCIAL STATEMENTS
For The Years Ended September 30, 2001 and 2000**

NOTE 7 - RECONCILIATION TO THE BUDGET - Continued

(Dollars in Millions)	Budgetary Resources	September 30, 2000	
		Obligations <u>Incurred</u>	<u>Outlays</u>
Statement of Budgetary Resources	\$ 188	\$ 131	\$ 131
Budget of the United States Government	\$ 188	\$ 131	\$ 131

NOTE 8 - CONTINGENCIES AND COMMITMENTS

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

Section 39(c)(2) of the Longshore and Harbor Workers' Compensation Act authorizes vocational rehabilitation of disabled employees and Section 8(g) provides additional compensation to disabled employees while undergoing rehabilitation training. Rehabilitation services paid from the Fund are mainly provided by private counselors and private training facilities. The rehabilitation agreements are funded by future assessments from the insurance carriers and self-insured employers. The amount of the outstanding rehabilitation agreements at September 30, 2001 and 2000 are \$2,338,559 and \$5,846,397, respectively.