

U.S. Department of Labor

Office of Inspector General—Office of Audit

OFFICE OF WORKERS' COMPENSATION PROGRAMS



LONGSHORE AND HARBOR WORKERS' COMPENSATION ACT SPECIAL FUND FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

September 30, 2009 and 2008

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.

Ernest P. Lewis

Assistant Inspector General for Audit

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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	2
Performance Goals and Results	3
Internal Controls and Systems	3
Known Risks and Uncertainties	4
Limitations of the Financial Statements	5
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 of Allowance	20
Note 5 – Other Liabilities	21
Note 6 – Transfers to OWCP	21
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
Note 10– Subsequent Event	24

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

Acronyms

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, 2009 and 2008

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 years (FY) 2009 and 2008, 4,376 and 4,533 injured workers and dependents received compensation benefits from the Fund.

The reporting entity is the Fund. Organizationally the Fund is administered by the DOL, Employment Standards Administration (ESA), Office of Workers' Compensation Programs (OWCP), DLHWC. The DLHWC has direct responsibility for administration of the Fund. On November 8, 2009, the ESA was abolished and OWCP now reports directly to the Office of the Secretary of Labor. 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.

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

Management's Discussion and Analysis

September 30, 2009 and 2008

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 \$129,934,530 in fiscal year 2009 and \$126,784,708 for fiscal year 2008. During fiscal years 2009 and 2008, recoveries were made for the Fund by independent contractors due to reconciliation activities on Forms LS-513, *Report of Payments* (used in the calculation of the annual assessment), and negotiation/collection of past due assessments. The reconciliation activities recovered \$4,904,689 in fiscal year 2009 and \$410,145 in fiscal year 2008 for the Fund. These recoveries have reduced, and will continue to reduce, carrier assessments and are reflected in the Assessments line on the Statements of Changes in Net Position.

Investment income for the Fund was \$43,963 for fiscal year 2009 compared to \$1,045,091 for fiscal year 2008. The average interest rate earned during fiscal year 2009 was 0.13% compared to 2.68% for fiscal year 2008. The Fund's costs remained relatively stable compared to fiscal year 2008; \$128,991,789 for fiscal year 2009 compared to \$130,084,569 for fiscal year 2008.

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.

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

Management's Discussion and Analysis

September 30, 2009 and 2008

Performance Goals and Results

DLHWC special fund 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 ensuring that worker benefits are protected and that employers administer benefit programs in an appropriate way. The DLHWC 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.

Internal Controls and Systems

The DLHWC'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.

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

Management's Discussion and Analysis

September 30, 2009 and 2008

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 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 over 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.

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

Management's Discussion and Analysis

September 30, 2009 and 2008

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).
- 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. Shelby Hallmark, Director
Office of Workers' Compensation Programs, 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, 2009 and 2008, 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 2009 audit, we also considered the Fund's internal control 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, 2009 and 2008, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

Our consideration of internal control over financial reporting was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. However, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined in the Internal Control Over Financial Reporting section of 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*, as amended.



The following sections discuss our opinion on the Fund's financial statements; our consideration of the Fund's internal control 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, 2009 and 2008, 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, 2009 and 2008, 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 was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses.

A deficiency in internal control 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 and correct misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.



In our fiscal year 2009 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, as amended.

* * * * *

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 2009 and 2008 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, as amended. Those standards and OMB Bulletin No. 07-04, as amended, 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 2009 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 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 2009 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, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, as amended. 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 DOL's management, DOL's 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 19, 2010

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

Balance Sheets

September 30, 2009 and 2008

Assets	2009	2008
Intra-governmental assets:		
Funds with U.S. Treasury (Note 2)	\$ 2,085,008	735,164
Investments (Note 3)	58,969,000	61,905,000
Total intra-governmental assets	61,054,008	62,640,164
Accounts receivable, net of allowance (Note 4)	3,756,224	7,970,749
Total assets	<u>\$ 64,810,232</u>	<u>70,610,913</u>
Liabilities and Net Position		
Liabilities:		
Accrued benefits payable	\$ —	4,570,584
Deferred revenue	31,074,977	31,227,620
Other liabilities (Note 5)	7,330,991	7,568,352
Total liabilities	38,405,968	43,366,556
Net position:		
Cumulative results of operations	26,404,264	27,244,357
Total liabilities and net position	<u>\$ 64,810,232</u>	<u>70,610,913</u>

See accompanying notes to financial statements.

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

Statements of Net Cost

Years ended September 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Special fund cost of operations:		
Second injury compensation, Section 8(f)	\$ 116,738,199	119,131,585
Wage increase compensation, Section 10(h)	1,656,152	1,672,889
Compensation payment for self-insurer in default, Section 18(b)	6,992,915	6,035,016
Rehabilitation services, Section 39 (c)	2,831,728	2,330,366
Medical Services (e)	3,500	—
Bankrupt self-insured employers	769,295	914,713
Net cost of operations	<u>\$ 128,991,789</u>	<u>130,084,569</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, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cumulative results of operations, beginning	\$ 27,244,357	30,887,999
Budgetary financing sources:		
Transfers in/out without reimbursement (Note 6)	(2,101,000)	(2,022,047)
Non-exchange revenues:		
Interest	43,963	1,045,091
Fines and Penalties	274,203	633,175
Assessments	129,934,530	126,784,708
Total non-exchange revenues	<u>130,252,696</u>	<u>128,462,974</u>
Total financing sources	128,151,696	126,440,927
Net cost of operations	<u>(128,991,789)</u>	<u>(130,084,569)</u>
Net position, end of period	<u>\$ 26,404,264</u>	<u>27,244,357</u>

See accompanying notes to financial statements.

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

Statements of Budgetary Resources
Years ended September 30, 2009 and 2008

	2009	2008
Budgetary resources:		
Unobligated balance, brought forward	\$ 58,069,554	66,456,691
Budget authority		
Appropriations received (assessments)	133,971,646	122,377,055
Spending authority from offsetting collections	—	143,902
Temporary not available pursuant to Public Law	—	20,480
Total budgetary resources	\$ 192,041,200	188,998,128
Status of Budgetary Resources:		
Obligations Incurred (Note 7)		
Direct	\$ 130,987,218	130,928,574
Unobligated balances - available:		
Other available - exempt from apportionment	61,053,982	58,069,554
Total status of budgetary resources	\$ 192,041,200	188,998,128
Change in obligated balance:		
Obligated balance, net		
Unpaid obligations, brought forward, October 1	\$ 4,570,584	3,655,366
Obligations Incurred, net	130,987,218	130,928,574
Less: Gross Outlays	(135,557,802)	(130,013,356)
Obligated balance, net, end of period		
Unpaid obligations	\$ —	4,570,584
Outlays:		
Gross Outlays	\$ 135,557,802	130,013,356
Less: Offsetting collections	—	(143,902)
Net outlays	\$ 135,557,802	129,869,454

See accompanying notes to financial statements.

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

Notes to the Financial Statements

Years ended September 30, 2009 and 2008

(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 United States Department of Labor (DOL), Employment Standards Administration (ESA), Office of Workers' Compensation Programs (OWCP), Division of Longshore and Harbor Workers' Compensation program (DLHWC). The DLHWC has direct responsibility for administration of the Fund. On November 8, 2009, the ESA was abolished and OWCP now reports directly to the Office of the Secretary of Labor. 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 SPECIAL FUND**

Notes to the Financial Statements

Years ended September 30, 2009 and 2008

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 DOL Consolidated Financial and related notes. The Fund is considered a fiduciary activity of DOL, and is properly disclosed and reported in the consolidated statements of DOL as a fiduciary fund.

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 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 they are held to maturity.

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

Notes to the Financial Statements

Years ended September 30, 2009 and 2008

(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. Accounts receivable are comprised of assessments receivable and Fund benefit overpayments to individuals primarily from amended compensation orders and corrections of payment computations.

(f) *Accrued Benefits Payable*

The 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. All disability benefits due and payable as of September 30, 2009 were paid as of September 30, 2009.

(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 reconciliation procedures on reported carrier data. Recoveries amounted to \$4,904,689 and

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

Notes to the Financial Statements

Years ended September 30, 2009 and 2008

\$410,145 for the fiscal years ended September 30, 2009 and 2008. 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, 2009 and 2008 consisted of cash deposits of \$2,085,008 and \$735,164, respectively. These cash deposits at September 30, 2009 and 2008 included \$168 and \$267, respectively, which are being held as security by authority of Section 32 of the Longshore and Harbor Workers' Compensation Act. The funds held as security by authority of Section 32 of the LHWCA 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.

Funds with U.S. Treasury at September 30, 2009 consisted of the following:

<u>(In Dollars)</u>	<u>Entity Assets</u>			<u>Total Entity Assets</u>	<u>Non-entity Assets</u>	<u>Total</u>
	<u>Unobligated Balance Available</u>	<u>Unobligated Balance Unavailable</u>	<u>Obligated Balance Not Yet Disbursed</u>			
Special Fund	\$ —	—	2,085,008	2,085,008	—	2,085,008

Funds with U.S. Treasury at September 30, 2008 consisted of the following:

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

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

Notes to the Financial Statements

Years ended September 30, 2009 and 2008

(3) Investments

Investments at September 30, 2009 and 2008 consisted of the following:

		September 30, 2009			
<u>(In Dollars)</u>		Face Value	Premium (Discount)	Net Value	Market Value
Intragovernmental securities:					
Marketable	\$	58,969,000	—	58,969,000	58,969,000
		September 30, 2008			
<u>(In Dollars)</u>		Face Value	Premium (Discount)	Net Value	Market Value
Intragovernmental securities:					
Marketable	\$	61,905,000	—	61,905,000	61,905,000

Investments of \$7,330,823 and \$7,296,300 at September 30, 2009 and 2008, 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, 2009 and 2008 consist of overnight securities. Investments at September 30, 2009 bear an interest rate of 0.07% compared to an interest rate of 0.33% for September 30, 2008. Interest rates on securities bought and sold during fiscal year 2009 ranged from 0.01% to 1.03% compared to 0.25% to 4.95% for fiscal year 2008.

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

Notes to the Financial Statements

Years ended September 30, 2009 and 2008

(4) Accounts Receivable, Net of Allowance

Accounts receivable at September 30, 2009 and 2008 consisted of the following:

<u>(In Dollars)</u>	<u>2009</u>	<u>2008</u>
Benefit overpayments	\$ 2,246,930	\$ 2,386,109
Assessments receivables	2,564,757	6,889,971
Less: allowance for doubtful accounts	<u>(1,055,463)</u>	<u>(1,305,331)</u>
Total accounts receivable from the public, net	<u>\$ 3,756,224</u>	<u>\$ 7,970,749</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 2009 and fiscal year 2008 consisted of the following:

		<u>2009</u>			
<u>(In Dollars)</u>	<u>Allowance October 1, 2008</u>	<u>Write Offs</u>	<u>Revenue Adjustment</u>	<u>Bad Debt</u>	<u>Allowance September 30, 2009</u>
Entity assets:					
Benefit overpayments \$	(960,832)	-	-	33,607	(927,225)
Assessment receivable	<u>(344,499)</u>	36,107	-	180,154	<u>(128,238)</u>
	<u>\$ (1,305,331)</u>	<u>36,107</u>	<u>-</u>	<u>213,761</u>	<u>(1,055,463)</u>
		<u>2008</u>			
<u>(In Dollars)</u>	<u>Allowance October 1, 2007</u>	<u>Write Offs</u>	<u>Revenue Adjustment</u>	<u>Bad Debt</u>	<u>Allowance September 30, 2008</u>
Entity assets:					
Benefit overpayments \$	(686,805)	-	-	(274,027)	(960,832)
Assessment receivable	<u>(580,816)</u>	82,405	-	153,912	<u>(344,499)</u>
	<u>\$ (1,267,621)</u>	<u>82,405</u>	<u>-</u>	<u>(120,115)</u>	<u>(1,305,331)</u>

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

Notes to the Financial Statements

Years ended September 30, 2009 and 2008

(5) Other Liabilities

Other liabilities at September 30, 2009 and 2008 consisted of the following current liabilities:

<u>(In Dollars)</u>	<u>2009</u>	<u>2008</u>
Other liabilities:		
Assessment overpayments by carriers	\$ —	271,785
Defaulted employer liability:		
Held in investments	7,330,823	7,296,300
Held in cash	168	267
	<u>7,330,991</u>	<u>7,296,567</u>
Total other liabilities	<u>\$ 7,330,991</u>	<u>7,568,352</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.

(6) Transfers to OWCP

The Fund reimburses the Office of Workers' Compensation Programs (OWCP) (a related entity within the Department of Labor) 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 \$2,101,000 in 2009 and \$2,022,047 in 2008. 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.

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

Notes to the Financial Statements

Years ended September 30, 2009 and 2008

(7) Status of Budgetary Resources

(a) Apportionment Categories of Obligations Incurred

<u>(In Dollars)</u>	2009	2008
Direct Obligations:		
Exempt from apportionment	\$ 130,987,218	130,928,574

(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, 2008 is shown below. Because the OWCP administers the District of Columbia Workmen's Compensation Act of 1928 (DCCA), which was incorporated under Section 44 of the LHWCA Act, DCCA is presented in the reconciliation to agree to the budget. The financial statements for the DCCA are presented in a separate report.

<u>(Dollars in Millions)</u>	2008		
	Budgetary Resources	Obligations Incurred	Outlays
Statement of Budgetary Resources - LSHW	\$ 189	131	130
Statement of Budgetary Resources - DCCA	15	10	10
Total Statement of Budgetary Resources	\$ 204	141	140
Budget of the United States Government	\$ 204	141	140

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

Notes to the Financial Statements

Years ended September 30, 2009 and 2008

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

	2009	2008
Budgetary resources obligated:		
Obligations incurred	\$ 130,987,218	130,928,574
Other resources:		
Transfers out	(2,101,000)	(2,022,047)
Total resources used to finance activities	128,886,218	128,906,527
Resources used to finance items not part of the net cost of operations		
Resources that finance the acquisition of assets	—	(143,902)
Total resources used to finance items not part of the net cost of operations	—	(143,902)
Total resources used to finance the net cost of operations	128,886,218	128,762,625
Components not requiring or generating resources:		
Revaluation of assets and liabilities	(33,607)	960,833
Benefit overpayments	139,178	361,111
Total components of net cost of operations that will not require or generate resources in the current period	105,571	1,321,944
Net cost of operations	\$ 128,991,789	130,084,569

(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.

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

Notes to the Financial Statements

Years ended September 30, 2009 and 2008

(10) Subsequent Event

The Employment Standards Administration (ESA) was dissolved on November 8, 2009. The Office of Workers' Compensation Programs (OWCP) now report directly to the Office of the Secretary.