

# U.S. Department of Labor

## Office of Inspector General—Office of Audit

### OFFICE OF WORKERS' COMPENSATION PROGRAMS



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

September 30, 2010 and 2009

This report was prepared by KPMG, LLP, under contract to the U.S. Department of Labor, Office of Inspector General, and by acceptance, it becomes a report of the Office of Inspector General.

A handwritten signature in purple ink that reads "Elliott P. Lewis".

Assistant Inspector General for Audit

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

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**DISTRICT OF COLUMBIA WORKMEN'S  
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**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
FY	Fiscal Year
LHWCA	Longshore Harbor Workers' Compensation Act
OMB	Office of Management and Budget
OWCP	Office of Workers' Compensation Programs
U.S.C.	United States Code

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

### **Management's Discussion and Analysis**

September 30, 2010 and 2009

### **Mission and Organizational Structure**

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

The reporting entity is the Fund. Organizationally the Fund is administered by the DOL, 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. The mission of the Fund is to effectively administer a program of compensation and medical benefits to cover workers who are injured on the job or suffer from occupational disease. The DLHWC has direct responsibility for all aspects of the administration of the Fund.

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

The DCCA provides medical benefits, compensation for lost-wages and rehabilitation services for job-related injuries, diseases or death of certain private-sector workers in the District of Columbia. Generally, benefits are paid directly from private funds by an authorized self-insured employer or through an authorized insurance carrier. Cases meeting the requirements of the LHWCA as extended to DCCA are paid from the Fund comprised primarily of employer contributions (assessments) and administered by the DLHWC. In fiscal year (FY) 2010 and 2009, 529 and 550 injured workers and their dependants received compensation benefits from the Fund.

Additionally, the District of Columbia Workmen's Compensation Act incorporates Section 10(h) of the LHWCA, which provides annual wage increase compensation (cost of living adjustments). Fifty percent of this annual wage increase for pre-1972 compensation

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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 Benefits Fund.

Although the Fund is administered by the Secretary of Labor, the U.S. Treasury is the Custodian, holding the funds in trust. The Fund is not property of the United States, but can only be disbursed as specified in Section 44(i) of the LHWCA. Administrative services for operating the Fund are provided by the OWCP 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 \$8,431,773 in FY 2010. This compares with assessment revenue of \$10,730,052 for FY 2009. During FY2010 and FY2009 no 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 calculations of the annual assessments), and negotiation/collection of past due assessments. The AUP activities have uncovered common industry reporting errors and other industry record keeping mistakes made by carriers which, when discovered, have been eliminated. Recoveries, if any, have and will continue to reduce carrier assessments and are reflected in the Assessments line on the Statement of Changes in Net Position.

In addition, investment income for the Fund was \$4,773 for FY 2010 compared to \$3,572 for FY 2009. The average interest rate earned during FY 2010 was 0.10% compared to 0.13% for FY 2009.

The Fund's costs remained relatively stable compared to FY 2009; \$9,358,393 for FY 2010 compared to \$9,777,283 for FY 2009. Proceeds of the Fund are used for payments under: Section 8(f) for second injury claims; Section 10(h) for initial and subsequent annual adjustments in compensation for permanent total disability or related death from injuries which occurred prior to the effective date of the 1972 LHWCA amendments; and Section 18(b) for compensation to injured workers in cases of employer default.



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**Performance Goals and Results**

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

**Internal Controls and Systems**

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

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.

With the exception of certain internal control deficiencies discussed in the Independent Auditors' Report, 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.

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

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**Known Risks and Uncertainties**

The DCCA Fund makes assessments on 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 LHWCA, obligations are paid as they are incurred. Assessments are based on compensation and medical benefits paid in the prior calendar year. The District of Columbia Workmen's Compensation Act of 1928 has been repealed and the DC Special Fund only assesses based on payments in cases that arose prior to July 26, 1982. The annual Special Fund assessment is assessed against a shrinking base of industry payments. These payments are concentrated among a relatively few insurance carriers and self insured employers. For example, the largest ten insurance carriers and self-insured employers alone fund over 63% of the District of Columbia assessments. If one or more of the largest payers became insolvent and was unable to pay their assessment obligations, temporary collection issues would result, necessitating special, unscheduled assessments or other actions to keep the Special Fund funded for current liabilities.

**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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## **Independent Auditors' Report**

Mr. Gary A. Steinberg, Acting 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) District of Columbia Workmen's Compensation Act Special Fund (the Fund) as of September 30, 2010 and 2009, 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 2010 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, 2010 and 2009, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

Our consideration of internal control over financial reporting resulted in identifying certain deficiencies that we consider to be a material weakness, as defined in the Internal Control Over Financial Reporting section of this report, as "Controls Over the Financial Reporting Process Need Improvement."

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 District of Columbia Workmen's Compensation Act Special Fund as of September 30, 2010 and 2009, 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 District of Columbia Workmen's Compensation Act Special Fund as of September 30, 2010 and 2009, 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 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 internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, in our fiscal year 2010 audit, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness.

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 material weakness is a deficiency, or a 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. We consider the deficiencies described in Exhibit I to be a material weakness.

## **Compliance and Other Matters**

The results of our tests of compliance described in the Responsibilities section of this report, disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* 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 2010 and 2009 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 2010 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, but not for the purpose of expressing 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. We did not test all controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

As part of obtaining reasonable assurance about whether the Fund's fiscal year 2010 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. 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.

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The Fund's response to the finding identified in our audit is presented in Exhibit I. We did not audit the Fund's response and, accordingly, we express no opinion on it.

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*

June 10, 2011

**Exhibit I**

**Controls Over the Financial Reporting Process Need Improvement**

During our FY 2010 audit, we noted that the internal controls over the preparation and review of the Fund financial statements performed by the Office of Workers' Compensation Programs (OWCP) Division of Longshore and Harbor Workers' Compensation program (DLHWC) and Office of the Chief Financial Officer (OCFO), were not operating effectively.

Specifically we identified the following deficiencies in internal controls over financial reporting that need to be improved:

1. Reconciliations between the Fund's general ledger account balances and balances reflected in subsidiary ledgers are not being prepared and reviewed consistently throughout the year;
2. Supervisory review controls, including those over journal entries, are not consistently performed;
3. Controls over the preparation and submission of the SF-224, *Statement of Transactions* are not consistently completed; and
4. Controls need to be performed consistently to ensure that differences identified by Treasury are resolved on a timely basis.

These deficiencies resulted in material errors in the Fund's financial statements that DOL adjusted as a result of our observations.

The Government Accountability Office (GAO), *Standards for Internal Control in the Federal Government* states, "Internal control should generally be designed to assure that ongoing monitoring occurs in the course of normal operations. It is performed continually and is ingrained in the agency's operations. It includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties."

GAO's *Standards for Internal Control in the Federal Government* also states, "Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from the initiation and authorization through its final classification in summary records. In addition, control activities help to ensure that all transactions are completely and accurately recorded."

OMB Circular No. A-123, *Management's Responsibility for Internal Control*, states that "The agency head must establish controls that reasonably ensure that obligations and costs are in compliance with applicable laws; funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the

preparation of accounts and reliable financial and statistical reports . . .”

During the prior fiscal year, OWCP was a component of the Employment Standards Administration (ESA), which was the agency within DOL responsible for preparing the Fund's financial statements. Effective November 8, 2009, the ESA was abolished and OWCP began reporting directly to the Office of the Secretary of Labor. OWCP's accounting staff was also reduced from 5 to 2 professionals during the reorganization. Subsequent to fiscal year end OWCP hired an additional accounting resource. Additionally, in January 2010, DOL implemented the New Core Financial Management System (NCFMS) to replace its legacy accounting and reporting system, the Department of Labor Accounting and Related Systems (DOLAR\$). The implementation of NCFMS required significant involvement of OWCP's accounting staff. These staffing reductions and the increase in demands on the remaining staff prevented OWCP from being able to dedicate sufficient resources to properly prepare and review the Fund's financial statements.

We recommend that DOL improve its internal controls over financial reporting to ensure that:

1. Reconciliations between the Fund's general ledger account balances and balances reflected in subsidiary ledgers are being prepared and reviewed consistently throughout the year;
2. Supervisory review controls, including those over journal entries are being effectively performed;
3. SF-224's are being thoroughly reviewed prior to submission to Treasury; and
4. Differences identified by Treasury are resolved on a timely basis.

**Management's Response:**

DOL management concurs with the findings and corrective action will be taken and completed in the current fiscal year.

**Auditors' Response:**

FY 2011 audit procedures will determine whether these recommendations have been adequately addressed and can be considered closed.



**DISTRICT OF COLUMBIA WORKMEN'S  
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Balance Sheets

September 30, 2010 and 2009

<b>Assets</b>	<b>2010</b>	<b>2009</b>
Intra-governmental assets:		
Funds with U.S. Treasury (Note 2)	\$ 353,404	994,978
Investments (Note 3)	<u>5,143,000</u>	<u>5,228,000</u>
Total intra-governmental assets	5,496,404	6,222,978
Accounts receivable, net of allowance (Note 4)	<u>147,508</u>	<u>674,339</u>
Total assets	<u><u>\$ 5,643,912</u></u>	<u><u>6,897,317</u></u>
<b>Liabilities and Net Position</b>		
Liabilities:		
Accrued benefits payable (Note 1f )	\$ 26,076	—
Deferred revenue	1,875,886	2,858,019
Other liabilities (Note 5)	<u>623,913</u>	<u>59,414</u>
Total liabilities	<u>2,525,875</u>	<u>2,917,433</u>
Net position:		
Cumulative results of operations	<u>3,118,037</u>	<u>3,979,884</u>
Total liabilities and net position	<u><u>\$ 5,643,912</u></u>	<u><u>6,897,317</u></u>

See accompanying notes to financial statements.

**DISTRICT OF COLUMBIA WORKMEN'S  
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Statements of Net Cost  
Years ended September 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Special fund net cost of operations:		
Second injury compensation, Section 8(f)	\$ 8,568,690	8,881,018
Wage increase compensation, Section 10(h)	548,257	590,135
Compensation payment for self-insurer in default, Section 18(b)	241,446	306,130
Net cost of operations	<u>\$ 9,358,393</u>	<u>9,777,283</u>

See accompanying notes to financial statements.

**DISTRICT OF COLUMBIA WORKMEN'S  
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Statements of Changes in Net Position  
Years ended September 30, 2010 and 2009

	<b>2010</b>	<b>2009</b>
Cumulative results of operations, beginning	\$ 3,979,884	3,023,543
Budgetary financing sources:		
Non-exchange revenues:		
Investment interest	4,773	3,572
Fines & Penalties	60,000	50,000
Assessments	8,431,773	10,680,052
Total non-exchange revenues	8,496,546	10,733,624
Net cost of operations	(9,358,393)	(9,777,283)
Net position, end of period	\$ 3,118,037	3,979,884

See accompanying notes to financial statements.

**DISTRICT OF COLUMBIA WORKMEN'S  
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Statements of Budgetary Resources  
Years ended September 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Budgetary resources:		
Unobligated balance, brought forward	\$ 6,224,904	5,256,086
Budget authority		
Appropriations received (assessments)	<u>10,931,292</u>	<u>10,717,796</u>
Total budgetary resources	<u>\$ 17,156,196</u>	<u>15,973,882</u>
Status of budgetary resources:		
Obligations incurred (Note 6)		
Direct	\$ 9,286,561	9,748,978
Unobligated balances - available:		
Other available - exempt from apportionment	<u>7,869,635</u>	<u>6,224,904</u>
Total status of budgetary resources	<u>\$ 17,156,196</u>	<u>15,973,882</u>
Change in obligated balance:		
Obligated balance , net		
Unpaid obligations, brought forward, October 1	\$ —	344,739
Obligations incurred, net	9,286,561	9,748,978
Less: Gross Outlays	<u>(9,260,485)</u>	<u>(10,093,717)</u>
Obligated balance, net, end of period		
Unpaid obligations	<u>\$ 26,076</u>	<u>—</u>
Outlays:		
Gross Outlays	\$ 9,260,485	10,093,717
Net outlays	<u>\$ 9,260,485</u>	<u>10,093,717</u>

See accompanying notes to financial statements.

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Notes to the Financial Statements

Years ended September 30, 2010 and 2009

**(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 District of Columbia Workmen's Compensation Act Special Fund (the Fund). 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. The Fund offers compensation, and in certain cases, medical care payments to District of Columbia employees for work related injuries or death incurred on or before July 26, 1982. Effective July 26, 1982, the District of Columbia Workmen's Compensation Act was amended whereby the Mayor of the District of Columbia became responsible for administration and operation of a separate special fund to cover post July 26, 1982, injury cases.

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

**(b) Basis of Accounting and Presentation**

These financial statements present the financial position, net cost of operations, changes in net position and budgetary resources, in accordance with U.S. generally accepted accounting principles and the form and content requirements of OMB Circular A-136. These financial statements have been prepared from the books and records of the Fund. These financial statements are not intended to present, and do not present, the full cost of the District of Columbia Workmen's Compensation (DCCA) program administered under the Longshore and Harbor Workers' Compensation Act Program (Longshore Program). In addition to the Fund costs presented in these statements, the full cost of the DCCA portion of the Longshore

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Notes to the Financial Statements

Years ended September 30, 2010 and 2009

Program would include certain direct costs of OWCP in the form of salaries and expenses for administration of the Longshore Program and allocated costs of OWCP and other DOL agencies incurred in support of the Longshore Program. The full cost of the DCCA portion of the Longshore Program is included in the DOL Consolidated Financial Statements and related notes. The Fund is considered a fiduciary activity of DOL, and is properly disclosed and reported in the consolidated financial 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 Funds with U.S. Treasury are trust funds that are available to pay current liabilities and finance authorized purchase commitments.

**(d) Investments**

Investments in U.S. Government securities are reported at cost, net of unamortized premiums or discounts, which approximate 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. Accounts receivable are comprised of assessments receivable and Fund benefit overpayments to individuals primarily from awarded compensation orders and corrections of payment computations.

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Notes to the Financial Statements

Years ended September 30, 2010 and 2009

**(f) *Accrued Benefits Payable***

The Fund provides compensation and medical benefits for work related injuries to employees of the District of Columbia that were incurred on or before July 26, 1982. 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 those estimated claims to be presented and paid by the fund related to covered workers in future years. Ultimate responsibility for the payment of such claims rests with the employer organizations. Accrued disability benefits payable as of September 30, 2010 amounted to \$26,076. All disability payments due and payable as of September 30, 2009 were paid as of September 30, 2009.

**(g) *Assessment Overpayment by Carriers***

Assessment overpayments are current liabilities and are to be refunded upon insurance carrier or self-insured employer's request or applied to reduce future assessments. The assessment overpayments are contained within the other liabilities line item on the balance sheet.

**(h) *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.

**(i) *Financing Sources Other Than Exchange Revenue***

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

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

### Notes to the Financial Statements

Years ended September 30, 2010 and 2009

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

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

Funds with U.S. Treasury at September 30, 2010 and 2009 consisted of cash deposits of \$353,404 and \$994,978 respectively. There was \$60 in cash deposits at September 30, 2010 and \$5 in cash deposits at September 30, 2009 being held as security by authority of Section 32 of the Longshore and Harbor Workers' Compensation Act in the Funds with U.S. Treasury balance. Section 32 funds relate to the default of self-insured employers and are available for payment of compensation and medical benefits to covered employees of the defaulted companies.

Funds with U.S. Treasury at September 30, 2010 consisted of the following:

	Entity Assets			Total Entity Assets	Non-entity Assets	Total
	Unobligated Balance Available	Unobligated Balance Unavailable	Obligated Balance Not Yet Disbursed			
(In Dollars)						
Special Fund	\$ —	—	353,404	353,404	—	353,404

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

	Entity Assets			Total Entity Assets	Non-entity Assets	Total
	Unobligated Balance Available	Unobligated Balance Unavailable	Obligated Balance Not Yet Disbursed			
(In Dollars)						
Special Fund	\$ —	—	994,978	994,978	—	994,978



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

Notes to the Financial Statements

Years ended September 30, 2010 and 2009

**(3) Investments**

Investments at September 30, 2010 and 2009 consisted of the following:

		September 30, 2010			
(In Dollars)		Face Value	Premium (Discount)	Net Value	Market Value
Intragovernmental securities:					
Marketable	\$	5,143,000	—	5,143,000	5,143,000

  

		September 30, 2009			
(In Dollars)		Face Value	Premium (Discount)	Net Value	Market Value
Intragovernmental securities:					
Marketable	\$	5,228,000	—	5,228,000	5,228,000

Investments of \$58,700 at September 30, 2010 and 2009 are being held as security by authority of Section 32 of the Longshore and Harbor Workers' Compensation Act. Section 32 investments relate to the default of self-insured employers and are restricted. These investments are available for payment of compensation and medical benefits to covered employees of the defaulted companies. Investments at September 30, 2010 and 2009 consist of overnight securities. Investments at September 30, 2010 bear an interest rate of 0.13 % compared to an interest rate of 0.07% at September 30, 2009. Interest rates on securities bought and sold during FY 2010 ranged from 0.01% to 0.17% compared to 0.01% to 1.03% for FY 2009.

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

Notes to the Financial Statements  
Years ended September 30, 2010 and 2009

### (4) Accounts Receivable, Net

Accounts receivable at September 30, 2010 and 2009 consisted of the following:

<u>(In Dollars)</u>	<u>2010</u>	<u>2009</u>
Entity assets:		
Benefit overpayments	\$ 136,234	\$ 164,184
Assessments receivable	12,647	539,015
Less: allowance for doubtful accounts	(1,373)	(28,860)
Total accounts receivable from the public, net	<u>\$ 147,508</u>	<u>\$ 674,339</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 FY 2010 and FY 2009 consisted of the following:

		<u>2010</u>			
<u>(In Dollars)</u>		<u>Allowance October 1, 2009</u>	<u>Write Offs</u>	<u>Revenue Adjustment</u>	<u>Allowance September 30, 2010</u>
Entity assets:					
Benefit overpayments	\$	(1,910)	—	—	853
Assessment receivable		(26,950)	—	—	26,634
	\$	<u>(28,860)</u>	<u>—</u>	<u>—</u>	<u>27,487</u>
					<u>(1,373)</u>

		<u>2009</u>			
<u>(In Dollars)</u>		<u>Allowance October 1, 2008</u>	<u>Write Offs</u>	<u>Revenue Adjustment</u>	<u>Allowance September 30, 2009</u>
Entity assets:					
Benefit overpayments	\$	(2,631)	—	—	721
Assessment receivable		—	—	—	(26,950)
	\$	<u>(2,631)</u>	<u>—</u>	<u>—</u>	<u>(26,229)</u>
					<u>(28,860)</u>

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

Notes to the Financial Statements

Years ended September 30, 2010 and 2009

**(5) Other Liabilities**

Other liabilities at September 30, 2010 and 2009 consisted of the following current liabilities:

<u>(In Dollars)</u>	<u>2010</u>	<u>2009</u>
Other liabilities:		
Assessment overpayments by carriers	\$ 565,153	709
Defaulted employer liability:		
Held in investments	58,700	58,700
Held in cash	60	5
	<u>58,760</u>	<u>58,705</u>
Total other liabilities	<u>\$ 623,913</u>	<u>59,414</u>

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

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

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

Notes to the Financial Statements  
Years ended September 30, 2010 and 2009

### (6) Status of Budgetary Resources

#### (a) *Apportionment Categories of Obligations Incurred*

Obligations incurred reported on the Statement of Budgetary Resources in FY 2010 and FY 2009 consisted of the following:

<u>(In Dollars)</u>	<u>2010</u>	<u>2009</u>
Direct Obligations:		
Exempt from apportionment	\$ <u>9,286,561</u>	<u>9,748,978</u>

#### (b) *Explanation of Differences Between the Statement of Budgetary Resources and the Budget of the United States Government*

A reconciliation of budgetary resources, obligations incurred and outlays, as presented in the Statement of Budgetary Resources to amounts included in the Budget of the United States Government for the year ended September 30, 2009 is shown below:

<u>(Dollars in Millions)</u>	<u>2009</u>		
	<u>Budgetary Resources</u>	<u>Obligations Incurred</u>	<u>Outlays</u>
Statement of Budgetary Resources - LSHW	\$ 192	131	136
Statement of Budgetary Resources - DCCA	<u>16</u>	<u>10</u>	<u>10</u>
Total Statement of Budgetary Resources	<u>208</u>	<u>141</u>	<u>146</u>
Budget of the United States Government	\$ <u>208</u>	<u>141</u>	<u>146</u>

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

Notes to the Financial Statements

Years ended September 30, 2010 and 2009

**(7) Reconciliation of Budgetary Resources Obligated to Net Cost of Operations**

	<u>2010</u>	<u>2009</u>
Obligations incurred	\$ 9,286,561	9,748,978
Total resources used to finance activities	<u>9,286,561</u>	<u>9,748,978</u>
Resources used to finance items not part of the net cost of operations		
Resources that finance the acquisition of assets	—	—
Total resources used to finance items not part of the net cost of operations	—	—
Total Resources used to finance the net cost of operations	<u>9,286,561</u>	<u>9,748,978</u>
Components not requiring or generating resources:		
Revaluation of assets and liabilities	(853)	—
Other	<u>72,685</u>	<u>28,305</u>
Total components of net cost of operations that will not require or generate resources in the current period	<u>71,832</u>	<u>28,305</u>
Net cost of operations	\$ <u>9,358,393</u>	<u>9,777,283</u>

**(8) 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 and Harbor Workers' Compensation Act, obligations are paid as they are incurred. Assessments are based on compensation and medical benefits paid in the prior calendar year. As previously discussed, the District of Columbia Workmen's Compensation Act of 1928 has been repealed and the Fund only assesses based on payments in cases that arose on or before July 26, 1982. Therefore, the annual Special Fund assessment is assessed for a shrinking population of claims. These assessments are concentrated among a relatively few insurance carriers and self insured employers. For example, the largest ten insurance carriers and self insured employers alone fund over 64% of the Fund assessments.