

Audited Financial Statements

State of Michigan
Department of Licensing and Regulatory Affairs
Unemployment Insurance Agency –
Unemployment Compensation Fund

*Year ended September 30, 2013
with Report of Independent Auditors*



State of Michigan
Department of Licensing and Regulatory Affairs
Unemployment Insurance Agency –
Unemployment Compensation Fund

Audited Financial Statements

Year Ended September 30, 2013

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Report of Independent Auditors

State of Michigan
Office of the Auditor General,
Office of Financial Management, and
Department of Licensing and Regulatory Affairs,
Unemployment Insurance Agency

Report on the Financial Statements

We have audited the accompanying financial statements of the Unemployment Compensation Fund of the State of Michigan Department of Licensing and Regulatory Affairs, Unemployment Insurance Agency (Fund) as of and for the year ended September 30, 2013, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of September 30, 2013, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Unemployment Compensation Fund of the State of Michigan Department of Licensing and Regulatory Affairs, Unemployment Insurance Agency and do not purport to, and do not, present fairly the financial position of the State of Michigan or the State of Michigan Department of Licensing and Regulatory Affairs, Unemployment Insurance Agency in its entirety as of September 30, 2013, the changes in its financial position, or, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2013, on our consideration of the Unemployment Compensation Fund of the State of Michigan Department of Licensing and Regulatory Affairs, Unemployment Insurance Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Unemployment Compensation Fund of the State of Michigan Department of Licensing and Regulatory Affairs, Unemployment Insurance Agency's internal control over financial reporting and compliance.

Andrews Hooper Pavlik PLC

Auburn Hills, Michigan
December 12, 2013

State of Michigan
Department of Licensing and Regulatory Affairs
Unemployment Insurance Agency-
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Management's Discussion and Analysis

Year ended September 30, 2013

Our discussion and analysis of the Unemployment Compensation Fund of the State of Michigan Department of Licensing and Regulatory Affairs, Unemployment Insurance Agency's (Fund) enterprise fund financial performance provides an overview of the Fund's activities for the year ended September 30, 2013.

The Fund was established under the provisions of the Michigan Employment Security Act of 1936 to account for unemployment contributions from Michigan employers and the payment of benefits to eligible unemployed workers. The Fund also accounts for the payment of benefits reimbursed under programs sponsored by certain federal government agencies. The accompanying financial statements present the results of operations for the Fund only. Accordingly, these financial statements do not present fairly the financial position or results of operations of the State of Michigan or the State of Michigan Department of Licensing and Regulatory Affairs, Unemployment Insurance Agency.

Financial Highlights

- After eliminating all outstanding Social Security Title XII (Title XII) debt in fiscal year 2012, the Fund has been steadily improving its net position, with an increase this year of \$548,086,635.
- The Federal Unemployment Tax Act (FUTA) credit reduction was also eliminated when the Title XII debt was retired. The proceeds of this additional tax were previously used to repay outstanding loans. The elimination of this additional tax on Michigan employers resulted in a \$226 million decrease in nonoperating revenues.
- The reductions in both the operating revenues and expenses by over \$700 million this year is attributable to the reduction in federal benefits. The federal government reimburses the Fund for all federal benefits.

Using this Annual Financial Report

The annual report includes this management's discussion and analysis report, the independent auditors' report, and the financial statements of the Fund. The financial statements also include notes that explain in more detail some of the information in the financial statements.

State of Michigan
Department of Licensing and Regulatory Affairs
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Management's Discussion and Analysis (continued)

Financial Reporting

The Statement of Net Position presents information on all of the Fund's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Fund is improving or deteriorating. However, one will need to consider other nonfinancial factors such as changes in economic conditions, population growth, and new or changed government legislation.

The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how the Fund's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Reporting on the Fund

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Fund, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

Financial Analysis of the Fund

Exhibit A provides the comparative summary of the Fund's net position as of September 30, 2013 and 2012:

State of Michigan
 Department of Licensing and Regulatory Affairs
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Management's Discussion and Analysis (continued)

Exhibit A

Assets	2013	2012
Current assets	\$ 1,858,424,172	\$ 1,264,952,099
Noncurrent assets	47,200,000	43,300,000
Total assets	<u>1,905,624,172</u>	<u>1,308,252,099</u>
Liabilities		
Current liabilities	76,024,315	55,791,509
Noncurrent liabilities	65,911,376	36,858,744
Total liabilities	<u>141,935,691</u>	<u>92,650,253</u>
Net position		
Restricted for benefit payments	1,727,630,541	1,145,706,999
Restricted for Reed Act	21,627,039	21,627,039
Restricted for American Recovery and Reinvestment Act	14,430,901	48,267,808
Total net position	<u>\$ 1,763,688,481</u>	<u>\$ 1,215,601,846</u>

Net position of the Fund was \$1,763,688,481 at September 30, 2013. The increase in assets and net position for the fund are attributable to an overall strengthening of the fund over the past two years. The net position of the Fund is restricted for the payment of unemployment benefits, with the exception of funds that were received under the Reed Act, and the American Recovery and Reinvestment Act Modernization Incentive and Special Administrative distributions. The net position for these distributions is restricted for certain costs of administration of unemployment compensation law and employment services.

The results of this year's operations for the Fund are reported in the Statement of Revenues, Expenses, and Changes in Net Position, as summarized in Exhibit B below, which shows the changes in net position for the years ended September 30, 2013 and 2012.

State of Michigan
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Management's Discussion and Analysis (continued)

Exhibit B

	2013	2012
Revenues		
Operating	\$ 2,737,893,235	\$ 3,492,407,210
Nonoperating	28,766,744	3,502,736,563
Total revenues	2,766,659,979	6,995,143,773
 Expenses		
Operating	2,186,287,691	2,957,866,608
Income before transfers	580,372,288	4,037,277,165
Transfers out	(32,285,653)	(28,582,713)
Change in net position	\$ 548,086,635	\$ 4,008,694,452

Net position of the Fund increased by \$548,086,635 for the year ended September 30, 2013. The significant reduction in total revenues from the previous year is attributable to the issuance of bonds in 2012 by the Michigan Strategic Fund to retire the Title XII debt. In addition to the \$3.2 billion in proceeds from the bond issuance, the FUTA credit reduction was also eliminated in 2013. This tax relief for Michigan employers reduced nonoperating revenues by \$226 million. The additional decline in both the operating revenues and the operating expenses is primarily attributable to the reduction in federal benefit programs. These programs are funded dollar for dollar by the federal government, thus a reduction in benefit expenses would yield a comparable reduction in revenue.

Factors Expected to Have an Effect on Future Operations

The State of Michigan's regular unemployment claims have been trending downward in recent years and are expected to decline again slightly in 2014 causing no major impact to this fund. The average tax rate per person is expected to decline causing less in contributions while the benefits paid amount begins to level off. The interest collected by the Fund will continue to grow as the balance is expected to increase.

A new directive from the United States Employment and Training Administration Unemployment Insurance Program Letter 02-12 requires that after October 21, 2013, a state must assess a 15% penalty to any improper payments to an individual due to fraud. Any recoveries applicable to this 15% penalty amount must be immediately deposited into the state's unemployment fund.

State of Michigan
Department of Licensing and Regulatory Affairs
Unemployment Insurance Agency –
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Statement of Net Position
September 30, 2013

Assets

Current assets:

Cash	\$ 15,678,208
Deposits with federal government	1,538,512,614
Receivable from contributing employers	223,075,724
Receivable from states under combined wage programs, net of allowance of approximately \$3,900,000	6,332,680
Due from State of Michigan funds	1,211,639
Due from State of Michigan component units	502,563
Due from federal agencies	153,007
Receivable from local governments and nonprofit entities, net of allowance of approximately \$3,700,000	<u>72,957,737</u>

Total current assets 1,858,424,172

Noncurrent assets:

Benefit overpayments, net of allowance of \$548,000,000	<u>47,200,000</u>
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Total assets \$ 1,905,624,172

Liabilities

Current liabilities:

Book cash overdraft	\$ 2,658,251
Accounts payable and accrued liabilities	36,217
Employer overpayments	5,382,142
Due to State of Michigan component units	1,551,254
Due to State of Michigan funds	36,555,037
Due to federal agencies	21,277,780
Due to local governments and nonprofit entities	929,992
Other liabilities	<u>7,633,642</u>

Total current liabilities 76,024,315

Noncurrent liabilities:

Employer overpayments, net of current portion	<u>65,911,376</u>
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Total liabilities 141,935,691

Net Position

Restricted for benefit payments	1,727,630,541
Restricted for Reed Act	21,627,039
Restricted for American Recovery and Reinvestment Act	<u>14,430,901</u>

Total net position \$ 1,763,688,481

State of Michigan
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Statement of Revenues, Expenses, and Changes in Net Position

Year ended September 30, 2013

Operating revenues:	
Federal:	
Unemployment contributions	\$ 1,758,344,857
Federal programs	943,113,476
Miscellaneous	<u>36,434,902</u>
Total operating revenues	2,737,893,235
Operating expenses:	
Unemployment benefits	1,241,622,961
Federal program claimants	943,113,476
Other fees	<u>1,551,254</u>
Total operating expenses	<u>2,186,287,691</u>
Operating income	551,605,544
Nonoperating revenues:	
Federal credit reduction	719,466
Interest earned	<u>28,047,278</u>
Total nonoperating revenues	<u>28,766,744</u>
Income before transfers	580,372,288
Transfers out	<u>(32,285,653)</u>
Change in net position	548,086,635
Total net position – beginning of year	<u>1,215,601,846</u>
Total net position – end of year	<u><u>\$ 1,763,688,481</u></u>

See accompanying notes.

State of Michigan
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Statement of Cash Flows

Year ended September 30, 2013

Cash flows from operating activities:	
Cash received from federal programs	\$ 961,303,631
Cash received from unemployment contributions	1,790,944,612
Cash received from miscellaneous sources	36,434,902
Payments of unemployment benefits and to federal program claimants	(2,189,048,872)
Payments of other fees	<u>(2,512,233)</u>
Net cash provided by operating activities	597,122,040
Cash flows from noncapital financing activities:	
Transfers out	(28,582,713)
Receipts of FUTA credits	<u>719,466</u>
Net cash used in noncapital financing activities	(27,863,247)
Cash flows from investing activities:	
Interest earned	<u>28,047,278</u>
Net cash provided by investing activities	<u>28,047,278</u>
Net increase in cash	597,306,071
Cash – beginning of the year	<u>954,226,500</u>
Cash – end of the year	<u><u>\$ 1,551,532,571</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 551,605,544
Net changes in assets and liabilities:	
Receivables	(1,258,707)
Due from State of Michigan funds	112,973
Due from State of Michigan component units	(4,945)
Due from federal agencies	136,664
Benefit overpayments	(3,900,000)
Accounts payable and accrued liabilities	(412,435)
Due to State of Michigan component units	(960,979)
Due to State of Michigan funds	26,565
Employer overpayments	30,323,753
Due to federal agencies	18,053,491
Other liabilities	<u>3,400,116</u>
Net cash provided by operating activities	<u><u>\$ 597,122,040</u></u>
Schedule of noncash financing activities:	
Due to State of Michigan funds	<u><u>\$ (32,285,653)</u></u>

See accompanying notes.

State of Michigan
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Unemployment Insurance Agency –
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Notes to Financial Statements

September 30, 2013

1. General Activities and Significant Accounting Policies

The Unemployment Compensation Fund of the State of Michigan Department of Licensing and Regulatory Affairs, Unemployment Insurance Agency (Fund) was established under the provisions of the Michigan Employment Security Act of 1936. The financial statements of the Fund have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting.

The Fund accounts for unemployment contributions from Michigan employers and the payment of benefits to eligible unemployed workers. The Fund also accounts for the payment of benefits reimbursed under programs sponsored by certain federal government agencies.

The Fund's financial statement amounts are included in the combined financial statements contained in the State of Michigan Comprehensive Annual Financial Report.

Basis of Accounting

The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Under this measurement focus, revenues are recognized when they are earned and expenses are recognized when incurred, regardless of the timing of related cash flows.

Cash

For the purposes of the Statement of Cash Flows, the amount reported as cash is equal to the total of the amounts on the Statement of Net Position classified as Cash and Deposits with federal government, less the Book cash overdraft. Cash consists of deposits in transit and cash held in checking accounts. The Deposits with federal government consists of highly liquid investments and functions as both a cash management pool and demand deposit account.

Allowance for Uncollectible Accounts

An allowance for uncollectible accounts is provided for receivable balances where ultimate collection is doubtful as determined by management from their analysis of potential bad debts and prior years' experience.

Operating Revenues and Expenses

Operating revenues and expenses primarily result from the collection of unemployment contributions and payment of unemployment benefits. Revenues and expenses not meeting this definition are reported as nonoperating revenue and transfers out.

State of Michigan
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Notes to Financial Statements (continued)

1. General Activities and Significant Accounting Policies (continued)

Reed Act Distribution

On March 13, 2002, the Fund received a distribution of \$295,823,400, which is described as a Reed Act distribution. Federal law governs how the Fund may use this money, which is generally available for the payment of unemployment compensation benefits and the administration of unemployment compensation law and employment services offices. No amounts were released from restriction during the fiscal year ended September 30, 2013.

American Recovery and Reinvestment Act Distribution

During 2009, the Fund received a distribution of \$84,304,851 that was prescribed by the American Recovery and Reinvestment Act (ARRA) Section 2003. This amount, referred to as a Modernization Incentive and Special Administrative distribution, is to be used for certain costs of administration of unemployment compensation law and employment services, as defined in the American Recovery and Reinvestment Act. The amount released from restriction during the fiscal year ended September 30, 2013 was \$33,836,907, of which \$32,285,653 was payable to the Administration Fund of the Unemployment Insurance Agency and \$1,551,254 was payable to the Michigan Economic Development Corporation at year-end.

Federal Unemployment Tax Act (FUTA) Credit Reduction

In addition to unemployment taxes paid by employers to the Unemployment Insurance Agency, employers pay a federal unemployment tax to the Internal Revenue Service, authorized under the Federal Unemployment Tax Act. The tax is paid annually on IRS Form 940, *Employer's Annual Federal Unemployment (FUTA) Tax Return*. The revenue from this tax is used to: (1) pay administrative costs of federal and state workforce agencies, (2) pay the federal share of Extended Benefits (under the Federal-State Extended Unemployment Compensation Act of 1970) during periods of high unemployment, and (3) provide loans to states with insolvent unemployment Trust Funds.

Employers pay FUTA on the first \$7,000 of each employee's annual wages. The FUTA tax is a flat rate of 6.0%, but employers who pay their state unemployment tax timely and in full receive a 5.4% credit. Therefore, the net FUTA rate is normally 0.6%. Federal law provides for a reduction in the FUTA tax credit when a state has outstanding federal loans for two years. The reduction in the FUTA tax credit is 0.3% for the first year and an additional 0.3% for each succeeding year until the loan is repaid. The FUTA credit reduction became effective January 1, 2009, therefore, the FUTA credit reduction results in a net FUTA rate of 1.5% for most employers.

Receipts from the FUTA credit reduction were \$719,466 for the year ended September 30, 2013.

State of Michigan
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Notes to Financial Statements (continued)

1. General Activities and Significant Accounting Policies (continued)

Use of Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

2. Cash

Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of failure of a depository financial institution, the Fund's deposits may not be recovered.

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are:

- a. Uncollateralized,
- b. Collateralized with securities held by the pledging financial institution or,
- c. Collateralized with securities held by the pledging financial institution's trust department or agent, but not in the depositor-government's name.

The Fund's policy requires the following criteria to lessen the custodial credit risk: all financial institutions holding the Fund's money must pledge collateral equal to the amount of the account balance for all demand and time deposits, to secure the Fund's deposits. A bank, savings and loan association, or credit union holding the Fund's deposits must be organized under the law of Michigan or federal law and maintain a principal office or branch office in the State of Michigan. No deposit in any financial organization may be in excess of 50% of the net worth of the organization.

The carrying amount of deposits on the balance sheet, net of the book cash overdraft, at September 30, 2013 is \$13,019,957. The deposits reflected in the accounts at the bank were \$18,935,173 at September 30, 2013. Of the bank balance, all amounts are covered by federal depository insurance and by collateral held in book-entry securities by pledging custodial banks at a Federal Reserve Bank.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of deposits.

Public Act 35 of 1997 requires Fund deposits be held in a financial institution which maintains a principal office or branch office located in the State of Michigan. The Fund had no deposits subject to foreign currency risk at September 30, 2013.

State of Michigan
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Notes to Financial Statements (continued)

3. Deposits with Federal Government

Deposits with federal government represent the Fund's interest, at fair market value, in a U.S. Treasury trust fund pool managed by the U.S. Secretary of the Treasury, pursuant to Title IX, Section 904 {42 USC 1104}(b) of the Social Security Act, which includes deposits from the unemployment compensation funds of various states. The Fund is credited quarterly with investment earnings and interest as computed on a daily basis. The Fund does not earn interest when there are outstanding Title XII advances.

The U.S. Secretary of the Treasury invests the unemployment compensation funds of the various states in accordance with the above described Title IX of the Social Security Act. Title IX allows for investments only in interest bearing obligations of the United States Government or in obligations guaranteed as to both principal and interest by the United States Government. This U.S. Treasury trust fund pool typically contains a daily "residual" cash amount of less than \$1,000. The "residual" cash is the amount left over after the investment and redemption activity. The investment is rounded to the nearest thousand.

The Fund's pro-rata share of the above described U.S. Treasury trust fund pool was \$1,538,512,614 at September 30, 2013. The specific risks and investments described below represent the risks and total amount of all investments contained in this U.S. Treasury trust fund pool at September 30, 2013.

U.S. Treasury Trust Fund Pool Investments

Types of Investments

The U.S. Treasury trust fund pooled investments include Special Issue Certificates of Indebtedness and Special Issue Bonds.

Risk

In accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, investments also require certain disclosures regarding policies and practices with respect to the risks associated with them. The custodial credit risk, credit risk, interest rate risk, concentration of credit risk, and foreign currency risk are discussed in the following paragraphs.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of a failure by a counterparty, the Fund will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government and are held by either:

The counterparty or,

The counterparty's trust department or agent, but not in the government's name.

State of Michigan
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Notes to Financial Statements (continued)

3. Deposits with Federal Government (continued)

U.S. Treasury Trust Fund Pool Investments (continued)

The Fund does not have an investment policy for managing custodial credit risk. At September 30, 2013, the U.S. Treasury trust fund pooled investments were not exposed to custodial credit risk.

Credit Risk

Credit risk is the risk that an issuer or another counterparty to an investment will not fulfill its obligations.

The U.S. Treasury trust fund pooled investments are unrated, but are interest bearing obligations of the United States Government and are obligations guaranteed as to both principal and interest by the United States Government.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

All of the investments in this U.S. Treasury trust fund pool, including their interest rate and maturity, at September 30, 2013 were:

Special Issue Bonds:

\$ 5,198,978 – 2.625% maturing 6/30/2014
\$ 4,000,000 – 2.375% maturing 6/30/2015
\$ 3,751,987 – 2.375% maturing 6/30/2016

The U.S. Treasury trust fund pool does not have an interest rate risk policy because they can only invest in interest bearing obligations of the United States Government or obligations guaranteed as to both principal and interest by the United States Government.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributable to the magnitude of a government's investments with a single issuer.

The Fund is invested in pooled investments of United States Government securities in a U.S. Treasury trust fund, which are excluded from the concentration of credit risk disclosure requirements.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of investments.

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Notes to Financial Statements (continued)

3. Deposits with Federal Government (continued)

U.S. Treasury Trust Fund Pool Investments (continued)

The Fund's investment policy does not allow for investment in foreign investments or currency; therefore, the Fund is not exposed to foreign currency risk.

4. Employer Overpayments

Employer overpayments represent management's estimate of the liability resulting from excess payments received from contributing employers. The current portion is the amount of the overpayments expected to be repaid to employers within the next fiscal year.

5. Transfers

The Fund records expenses to other State of Michigan agencies for services received as transfers, in accordance with accounting policies established by the State of Michigan.

6. Risk Management

The State of Michigan has established internal service funds to account for certain aspects of its risk management program. The Fund transfers money to these internal service funds to pay for coverage on these types of risks.

The State of Michigan does not carry commercial insurance for many of the risks of losses to which it is exposed. The State of Michigan is self-insured for most general liability and property losses, portions of its employee insurance benefit and employee bonding programs, automobile liability and workers' compensation, and unemployment compensation claims. The State of Michigan purchases some level of insurance coverage for portions of the State employee insurance benefits program, boiler and machinery coverage, and employee bonding. Information regarding current year claims and changes in estimates, claim payments, and amount of claims liability is included in the State of Michigan Comprehensive Annual Financial Report.

7. Contingencies

The Fund is involved in various claims and legal actions and participates in a number of federal financial assistance programs, which could lead to a request for reimbursement to the federal grantor agencies for disallowed expenditures. Although it is not possible to predict the outcome of these matters, in the opinion of management, their ultimate disposition will not have a material effect on the financial position of the Fund.

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Notes to Financial Statements (continued)

8. New Pronouncements

During the year ended September 30, 2013, the Fund adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB Statement No. 63 provided financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. GASB Statement No. 63 amends the net asset reporting requirements in GASB Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.