

Audited Financial Statements

State of Michigan
Talent Investment Agency
Unemployment Insurance Agency –
Unemployment Compensation Fund

*Year Ended September 30, 2016
with Report of Independent Auditors*

State of Michigan
Talent Investment Agency
Unemployment Insurance Agency –
Unemployment Compensation Fund

Audited Financial Statements

Year Ended September 30, 2016

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Report of Independent Auditors

State of Michigan
Office of the Auditor General,
Office of Financial Management, and
Talent Investment Agency,
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 Talent Investment Agency, Unemployment Insurance Agency as of and for the year ended September 30, 2016, 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, 2016, 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 Talent Investment Agency, 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 Talent Investment Agency, Unemployment Insurance Agency in its entirety as of September 30, 2016, 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 5, 2016, on our consideration of the Unemployment Compensation Fund of the State of Michigan Talent Investment Agency, Unemployment Insurance Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 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 Talent Investment Agency, Unemployment Insurance Agency's internal control over financial reporting and compliance.

Andrews Hooper Paulik PLC

Auburn Hills, Michigan
December 5, 2016

State of Michigan
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Management's Discussion and Analysis

September 30, 2016

Our discussion and analysis of the Unemployment Compensation Fund of the State of Michigan Talent Investment Agency, Unemployment Insurance Agency's (Fund) enterprise fund financial performance provides an overview of the Fund's activities for the year ended September 30, 2016.

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 Talent Investment Agency, Unemployment Insurance Agency.

Financial Highlights

- The Fund has been steadily improving its net position, with an increase this year of approximately \$479 million. The increase is due to increased covered employment, increased overpayment recoveries, and extremely low benefit payments.
- Interest income has increased approximately \$10.7 million over the prior year as a result of the maintenance of a higher Trust Fund Balance.
- The reduction in operating revenues exceeded the reduction of operating expenses for the year by approximately \$50 million. The decrease in unemployment revenue was attributable to lower tax collections due to the reduced wage base and lower federal revenue. The expenses are lower due to extremely low benefit payments. The unemployment rate is near its lowest since 2000 (accounting for seasonal effects).
- The Trust Fund balance exceeded \$2.5 billion on June 30, 2015 and remained so for the quarter. This resulted in the continuation of the reduction of the wage base from \$9,500 to \$9,000 for non-delinquent employers.
- In Fiscal Year 2016, the Agency received clarification from USDOL-ETA regarding the allocation of penalty and interest collections attributable to federal programs. The clarification received stipulated that the recoveries of penalties and interest assessed on overpayments attributable to federal programs are treated differently. Collections associated with interest assessments on overpayments must be returned to the federal program; however penalties collected are to be used at the discretion of the state. The MES Act stipulates the deposit of all penalty collections into the Contingent Fund.

Upon receipt of the federal guidance, the agency modified its allocation methodology to ensure all penalties are allocated to the Contingent Fund.

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September 30, 2016

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.

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 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, 2016 and 2015:

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Management's Discussion and Analysis

September 30, 2016

Exhibit A

| | 2016 (In Thousands) | 2015 (In Thousands) |
|-----------------------------------|-------------------------------|-------------------------------|
| Assets | | |
| Current assets | \$ 3,364,886 | \$ 2,903,382 |
| Noncurrent assets | 29,200 | 27,500 |
| Total assets | 3,394,086 | 2,930,882 |
| Liabilities | | |
| Current liabilities | 40,595 | 42,777 |
| Noncurrent liabilities | 46,441 | 59,962 |
| Total liabilities | 87,036 | 102,739 |
| Net position | | |
| Restricted for benefit payments | 3,284,056 | 2,804,359 |
| Restricted for Reed Act | 21,627 | 21,627 |
| Restricted for STC Administrative | 1,367 | 2,157 |
| Total net position | \$ 3,307,050 | \$ 2,828,143 |

The increase in assets and net position for the fund is attributable to an overall strengthening of the fund over the past five 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 Short Time Compensation which are used for certain costs of administration of unemployment compensation programs 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, 2016 and 2015:

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September 30, 2016

Exhibit B

| | 2016 <u>(In Thousands)</u> | 2015 <u>(In Thousands)</u> |
|-------------------------|--------------------------------------|--------------------------------------|
| Revenues | | |
| Operating | \$ 1,329,354 | \$ 1,418,458 |
| Nonoperating | 64,406 | 54,527 |
| Total revenues | 1,393,760 | 1,472,985 |
| | | |
| Expenses | | |
| Operating | 914,063 | 952,760 |
| | | |
| Income before transfers | 479,697 | 520,225 |
| | | |
| Transfers out | (790) | (683) |
| | | |
| Change in net position | \$ 478,907 | \$ 519,542 |

The reduction in total revenues from the previous year is attributable to lower tax assessments on contributing employers, and the discontinuance of federal extension programs. The decline in operating expenses is also primarily attributable to the reduction in unemployment insurance and federal program benefit payments. Federal 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 decreased from their September 2015 level; this is consistent with recent unemployment trends. The trend should continue in 2017 causing no major impact to this fund. The average tax rate per person is expected to decline resulting in lower contributions in addition to a decline in benefits paid. The interest collected by the Fund will continue to grow as the net position of the fund is expected to increase.

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Statement of Net Position

September 30, 2016

Assets

Current assets:

| | |
|--|---------------|
| Cash | \$ 15,076,369 |
| Deposits with federal government | 3,142,980,467 |
| Receivable from contributing employers | 174,312,821 |
| Receivable from states under combined wage programs | 988,768 |
| Due from State of Michigan funds | 677,796 |
| Due from State of Michigan component units | 333,172 |
| Due from federal agencies | 1,470,290 |
| Receivable from local governments and nonprofit entities, net of allowance of approximately \$7,000,000 | 29,046,306 |

| | |
|----------------------|---------------|
| Total current assets | 3,364,885,989 |
|----------------------|---------------|

Noncurrent assets:

| | |
|---|------------|
| Benefit overpayments, net of allowance of \$168,000,000 | 29,200,000 |
|---|------------|

| | |
|--------------|---------------|
| Total assets | 3,394,085,989 |
|--------------|---------------|

Liabilities

Current liabilities:

| | |
|---|------------|
| Book cash overdraft | 883,173 |
| Accounts payable and accrued liabilities | 4,952,799 |
| Employer overpayments | 22,076,763 |
| Due to State of Michigan funds | 3,898,084 |
| Due to federal agencies | 4,957,941 |
| Due to local governments and nonprofit entities | 880,161 |
| Other liabilities | 2,946,558 |

| | |
|---------------------------|------------|
| Total current liabilities | 40,595,479 |
|---------------------------|------------|

Noncurrent liabilities:

| | |
|---|------------|
| Employer overpayments, net of current portion | 46,440,377 |
|---|------------|

| | |
|-------------------|------------|
| Total liabilities | 87,035,856 |
|-------------------|------------|

Net Position

| | |
|---|------------------|
| Restricted for benefit payments | 3,284,055,724 |
| Restricted for Reed Act | 21,627,039 |
| Restricted for Short Time Compensation | 1,367,082 |
| Restricted for American Recovery and Reinvestment Act | 288 |
| Total net position | \$ 3,307,050,133 |

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Statement of Revenues, Expenses, and Changes in Net Position

Year Ended September 30, 2016

| | |
|---|--------------------------------|
| Operating revenues: | |
| Federal: | |
| Unemployment contributions | \$ 1,293,138,774 |
| Federal programs | 5,668,475 |
| Miscellaneous | 30,546,347 |
| Total operating revenues | <u>1,329,353,596</u> |
| Operating expenses: | |
| Unemployment benefits | 908,393,952 |
| Federal program claimants | 5,669,260 |
| Total operating expenses | <u>914,063,212</u> |
| Operating income | 415,290,384 |
| Nonoperating revenues: | |
| Federal credit reduction | 71,068 |
| Interest earned | 64,335,446 |
| Total nonoperating revenues | <u>64,406,514</u> |
| Income before transfers | 479,696,898 |
| Transfers out | <u>(790,170)</u> |
| Change in net position | 478,906,728 |
| Total net position at beginning of year | <u>2,828,143,405</u> |
| Total net position at end of year | <u><u>\$ 3,307,050,133</u></u> |

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Statement of Cash Flows

Year Ended September 30, 2016

| | |
|--|-------------------------|
| Cash flows from operating activities: | |
| Cash received from federal programs | \$ 3,788,571 |
| Cash received from unemployment contributions | 1,292,740,290 |
| Cash received from miscellaneous sources | 30,546,347 |
| Payments of unemployment benefits and to federal program claimants | (911,101,032) |
| Net cash provided by operating activities | <u>415,974,176</u> |
| Cash flows from noncapital financing activities: | |
| Transfers out | (658,889) |
| Receipts of FUTA credits | 71,068 |
| Net cash used in noncapital financing activities | <u>(587,821)</u> |
| Cash flows from investing activities: | |
| Interest earned | <u>64,335,446</u> |
| Net cash provided by investing activities | <u>64,335,446</u> |
| Net increase in cash | 479,721,801 |
| Cash at beginning of year | <u>2,677,451,862</u> |
| Cash at end of year | <u>\$ 3,157,173,663</u> |
| Reconciliation of operating income to net cash provided by operating activities: | |
| Operating income | \$ 415,290,384 |
| Net changes in assets and liabilities: | |
| Receivables | 15,855,588 |
| Due from State of Michigan funds | (24,454) |
| Due from State of Michigan component units | (76,970) |
| Due from federal agencies | (662,917) |
| Benefit overpayments | (1,700,000) |
| Accounts payable and accrued liabilities | 3,677,324 |
| Due to State of Michigan component units | (2,592) |
| Due to State of Michigan funds | 299,471 |
| Employer overpayments | (16,449,527) |
| Due to federal agencies | (1,216,987) |
| Other liabilities | 984,856 |
| Net cash provided by operating activities | <u>\$ 415,974,176</u> |
| Schedule of noncash financing activities: | |
| Due to State of Michigan funds | <u>\$ (790,170)</u> |

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Notes to Financial Statements

September 30, 2016

1. General Activities and Significant Accounting Policies

The Unemployment Compensation Fund of the State of Michigan Talent Investment Agency, 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 the federal government, less the Book cash overdraft. Cash consists of deposits in transit and cash held in checking accounts. The Deposits with the 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.

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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, 2016.

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. No amounts were released from restriction during the fiscal year ended September 30, 2016.

Short Time Compensation Administrative Distribution

On November 6, 2014, the Fund received a distribution of \$2,840,535 which is described as a Short Time Compensation (STC) administrative distribution. Federal law governs how the Fund may use this money, which is strictly for the implementation and promotion of the Work Share program. The amount released and transferred to the Administrative Fund of the Unemployment Insurance Agency was \$790,170 for the fiscal year ended September 30, 2016.

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.

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Notes to Financial Statements

September 30, 2016

1. General Activities and Significant Accounting Policies (continued)

Federal Unemployment Tax Act (FUTA) Credit Reduction (continued)

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 was effective between January 1, 2009 and December 31, 2011.

Receipts from the FUTA credit reduction were \$71,068 for the year ended September 30, 2016.

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.

Deferred Outflows and Inflows of Resources

In addition to assets, the balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The Fund has no items that qualify for reporting in this category.

In addition to liabilities, the balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Fund has no items that qualify for reporting in this category.

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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, as of September 30, 2016 is \$14,193,196. The deposits reflected in the accounts at the bank were \$18,330,673 as of September 30, 2016. 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 as of September 30, 2016.

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3. Deposits with Federal Government

Deposits with the 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 \$3,142,980,467 as of September 30, 2016. 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 as of September 30, 2016.

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.

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3. Deposits with Federal Government (continued)

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

Custodial Credit Risk (continued)

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.

The Fund does not have an investment policy for managing custodial credit risk. As of September 30, 2016, 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, as of September 30, 2016 were:

Special Issue Bonds:

\$ 25,217,893,000 – 2.250% maturing June 30, 2017

\$ 19,404,903,000 – 2.250% maturing June 30, 2018

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.

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3. Deposits with Federal Government (continued)

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

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.

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.

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6. Risk Management (continued)

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.