

Audited Financial Statements

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

*Year ended September 30, 2014  
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, 2014

**Contents**

Report of Independent Auditors.....	1
Management’s Discussion and Analysis.....	3
Statement of Net Position.....	7
Statement of Revenues, Expenses, and Changes in Net Position .....	8
Statement of Cash Flows.....	9
Notes to Financial Statements .....	10

## 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, 2014, 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, 2014, 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, 2014, 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, 2014, 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, 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 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 5, 2014

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

Management's Discussion and Analysis

Year ended September 30, 2014

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, 2014.

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 approximately \$545 million.
- Interest income has increased approximately \$13.4 million over the prior year as a result of increasing deposits attributable to an overall strengthening of the Fund over the past three years.
- The reductions in both the operating revenues and expenses by over \$900 million in fiscal year 2014 are primarily attributable to the reduction in federal unemployment benefits. The federal government reimburses the Fund for all federal unemployment 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  
Unemployment Insurance Agency-  
Unemployment Compensation Fund

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 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, 2014 and 2013:

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

Management's Discussion and Analysis (continued)

**Exhibit A**

	<b>2014</b> (In Thousands)	<b>2013</b> (In Thousands)
<b>Assets</b>		
Current assets	<b>\$ 2,345,895</b>	\$ 1,858,424
Noncurrent assets	<b>47,900</b>	47,200
Total assets	<b>2,393,795</b>	1,905,624
 <b>Liabilities</b>		
Current liabilities	<b>30,466</b>	76,024
Noncurrent liabilities	<b>54,728</b>	65,912
Total liabilities	<b>85,194</b>	141,936
 <b>Net position</b>		
Restricted for benefit payments	<b>2,286,974</b>	1,727,630
Restricted for Reed Act	<b>21,627</b>	21,627
Restricted for American Recovery and Reinvestment Act	<b>-</b>	14,431
Total net position	<b>\$ 2,308,601</b>	\$ 1,763,688

The increase in assets and net position for the fund is attributable to an overall strengthening of the fund over the past three 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, 2014 and 2013.

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

Management's Discussion and Analysis (continued)

**Exhibit B**

	<b>2014</b> (In Thousands)	<b>2013</b> (In Thousands)
<b>Revenues</b>		
Operating	<b>\$ 1,764,069</b>	\$ 2,737,893
Nonoperating	<b>41,761</b>	28,767
Total revenues	<b>1,805,830</b>	2,766,660
 <b>Expenses</b>		
Operating	<b>1,246,486</b>	2,186,288
Income before transfers	<b>559,344</b>	580,372
Transfers out	<b>(14,431)</b>	(32,285)
Change in net position	<b>\$ 544,913</b>	\$ 548,087

The reduction in total revenues from the previous year is attributable to a decrease in unemployment contribution revenue and a reduction in federal benefit programs. The decline in operating expenses is also 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 2015 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 net position of the fund 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 –  
 Unemployment Compensation Fund

Statement of Net Position

September 30, 2014

**Assets**

Current assets:

Cash	\$ 13,880,887
Deposits with federal government	2,065,900,003
Receivable from contributing employers	214,634,161
Receivable from states under combined wage programs	1,002,534
Due from State of Michigan funds	815,004
Due from State of Michigan component units	403,130
Due from federal agencies	886,496
Receivable from local governments and nonprofit entities, net of allowance of approximately \$5,400,000	48,372,646

Total current assets 2,345,894,861

Noncurrent assets:

Benefit overpayments, net of allowance of \$823,000,000	47,900,000
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Total assets 2,393,794,861

**Liabilities**

Current liabilities:

Book cash overdraft	6,685,246
Accounts payable and accrued liabilities	1,699,664
Employer overpayments	6,688,471
Due to State of Michigan component units	1,128
Due to State of Michigan funds	9,541,394
Due to federal agencies	2,658,586
Due to local governments and nonprofit entities	1,112,379
Other liabilities	2,078,797

Total current liabilities 30,465,665

Noncurrent liabilities:

Employer overpayments, net of current portion	54,727,743
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Total liabilities 85,193,408

**Net Position**

Restricted for benefit payments	2,286,974,126
Restricted for Reed Act	21,627,039
Restricted for American Recovery and Reinvestment Act	288

Total net position \$ 2,308,601,453

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

Statement of Revenues, Expenses, and Changes in Net Position

Year ended September 30, 2014

Operating revenues:	
Federal:	
Unemployment contributions	\$ 1,570,242,127
Federal programs	165,815,610
Miscellaneous	<u>28,010,927</u>
Total operating revenues	1,764,068,664
Operating expenses:	
Unemployment benefits	1,080,709,614
Federal program claimants	<u>165,776,864</u>
Total operating expenses	<u>1,246,486,478</u>
Operating income	517,582,186
Nonoperating revenues:	
Federal credit reduction	296,296
Interest earned	<u>41,465,103</u>
Total nonoperating revenues	<u>41,761,399</u>
Income before transfers	559,343,585
Transfers out	<u>(14,430,613)</u>
Change in net position	544,912,972
Total net position – beginning of year	<u>1,763,688,481</u>
Total net position – end of year	<u><u>\$ 2,308,601,453</u></u>

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

Statement of Cash Flows

Year ended September 30, 2014

Cash flows from operating activities:	
Cash received from federal programs	\$ 146,462,927
Cash received from unemployment contributions	1,603,562,644
Cash received from miscellaneous sources	28,010,927
Payments of unemployment benefits and to federal program claimants	(1,252,741,323)
Payments of other fees	<u>(1,550,126)</u>
Net cash provided by operating activities	523,745,049
Cash flows from noncapital financing activities:	
Transfers out	(43,943,375)
Receipts of FUTA credits	<u>296,296</u>
Net cash used in noncapital financing activities	(43,647,079)
Cash flows from investing activities:	
Interest earned	<u>41,465,103</u>
Net cash provided by investing activities	<u>41,465,103</u>
Net increase in cash	521,563,073
Cash – beginning of the year	<u>1,551,532,571</u>
Cash – end of the year	<u><u>\$ 2,073,095,644</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 517,582,186
Net changes in assets and liabilities:	
Receivables	38,356,800
Due from State of Michigan funds	396,635
Due from State of Michigan component units	99,433
Due from federal agencies	(733,489)
Benefit overpayments	(700,000)
Accounts payable and accrued liabilities	1,663,447
Due to State of Michigan component units	(1,550,126)
Due to State of Michigan funds	2,499,119
Employer overpayments	(9,694,917)
Due to federal agencies	(18,619,194)
Other liabilities	<u>(5,554,845)</u>
Net cash provided by operating activities	<u><u>\$ 523,745,049</u></u>
Schedule of noncash financing activities:	
Due to State of Michigan funds	<u><u>\$ (2,772,892)</u></u>

*See accompanying notes.*

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

Notes to Financial Statements

September 30, 2014

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

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, 2014.

**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 was \$14,430,613 and was transferred to the Administration Fund of the Unemployment Insurance Agency during the fiscal year ended September 30, 2014.

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

Receipts from the FUTA credit reduction were \$296,296 for the year ended September 30, 2014.

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

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.

**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.

**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.

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

Notes to Financial Statements (continued)

**2. Cash (continued)**

**Custodial Credit Risk (continued)**

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, 2014 is \$7,195,641. The deposits reflected in the accounts at the bank were \$18,783,797 at September 30, 2014. 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, 2014.

**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 \$2,065,900,003 at September 30, 2014. 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, 2014.

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

Notes to Financial Statements (continued)

**3. Deposits with Federal Government (continued)**

**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.

The Fund does not have an investment policy for managing custodial credit risk. At September 30, 2014, 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.

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

Notes to Financial Statements (continued)

**3. Deposits with Federal Government (continued)**

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

**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, 2014 were:

Special Issue Bonds:

\$ 3,751,987,000 – 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.

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.

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

Notes to Financial Statements (continued)

**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.

**8. New Pronouncement**

During the year ended September 30, 2014, the Fund adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The objective of this statement is to establish standards that reclassify certain items that were previously reported as assets and liabilities and instead classify them as deferred inflows of resources and deferred outflows of resources. The implementation of Statement No. 65 had no impact on the Fund's financial statements for the year ended September 30, 2014.