

Audited Financial Statements

State of Michigan  
Department of Labor and Economic Opportunity  
Unemployment Insurance Agency –  
Unemployment Compensation Fund

*Year Ended September 30, 2019  
with Report of Independent Auditors*

State of Michigan  
Department of Labor and Economic Opportunity  
Unemployment Insurance Agency –  
Unemployment Compensation Fund

Audited Financial Statements

Year Ended September 30, 2019

**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 Labor and Economic Opportunity,  
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 Labor and Economic Opportunity, Unemployment Insurance Agency (Fund) as of and for the year ended September 30, 2019, 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 Unemployment Compensation Fund as of September 30, 2019, 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 Labor and Economic Opportunity, 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 Labor and Economic Opportunity, Unemployment Insurance Agency in its entirety as of September 30, 2019, 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 February 20, 2020, on our consideration of the Unemployment Compensation Fund of the State of Michigan Department of Labor and Economic Opportunity, 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 the effectiveness of 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 Department of Labor and Economic Opportunity's internal control over financial reporting and compliance.

*Andrews Hooper Pavlik PLC*

Auburn Hills, Michigan  
February 20, 2020

State of Michigan  
Department of Labor and Economic Opportunity  
Unemployment Insurance Agency –  
Unemployment Compensation Fund

Management's Discussion and Analysis

September 30, 2019

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 Unemployment Compensation Fund (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 Fund, like other state and local governmental funds, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

This annual report includes management's discussion and analysis report, the independent auditors' report, and the financial statements of the Fund. 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 Department of Labor and Economic Opportunity. The financial statements also include notes that explain in more detail some of the information in the financial statements. The notes are essential to a full understanding of the data provided in the financial statements.

*Financial Highlights*

- The Fund is steadily improving its net position, with an increase this year of approximately \$511 million. The fund balance on deposit with the federal government is approximately \$4.7 billion, the third largest in the country. The percentage of this fund balance to total insured wages was 2.5 percent in 2019. A higher percentage is generally considered a sign of health and Michigan is tenth highest in the nation.
- Operating Income decreased \$40 million during the year. This represents a \$52 million decrease in revenue and a \$12 million decrease in expenses over the previous fiscal year. The change in operating income is primarily attributable to a reduction in both benefit expenditures and employer contributions.
- As of 2<sup>nd</sup> quarter 2019, the program continued with a record low for first payments at 34,000; however, initial claims increased slightly from 71,000 to 73,000 from a year ago for the same quarter. The average number of weeks an individual collected unemployment benefits remained approximately 12 weeks for fiscal years 2018 and 2019.

State of Michigan  
Department of Labor and Economic Opportunity  
Unemployment Insurance Agency –  
Unemployment Compensation Fund

Management's Discussion and Analysis

September 30, 2019

- The average tax rate on taxable wages dropped from 3.20 percent in 2018, to 3.09 percent in 2019. This 0.11 percentage point decrease equates to an average tax reduction of approximately \$10 per employee to the Fund. Countering this reduction during the year was an increased coverage of approximately 37,000 employees and 750 subject employers.\*
- The Fund earned approximately \$104 million in interest income. The increase in average yield, to 2.38 percent, and comparatively higher fund balance in the Unemployment Trust Fund generated approximately \$17 million more interest income.

\*Source: USDOL ETA UI Data Summary for Michigan ([https://oui.doleta.gov/unemploy/data\\_summary/DataSum.asp](https://oui.doleta.gov/unemploy/data_summary/DataSum.asp))

*Financial Analysis of the Fund*

Our analysis provides an overview of the financial performance of the State of Michigan, Unemployment Insurance Agency's Unemployment Compensation Fund.

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 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 programs and employment services.

State of Michigan  
 Department of Labor and Economic Opportunity  
 Unemployment Insurance Agency –  
 Unemployment Compensation Fund

Management’s Discussion and Analysis

September 30, 2019

Exhibit A provides the comparative summary of the Fund’s net position as of September 30, 2019 and 2018:

*Exhibit A*

	<b>2019</b>	<b>2018</b>
	(In Thousands)	(In Thousands)
<b>Assets</b>		
Current assets	<b>\$ 4,879,302</b>	\$ 4,374,849
Noncurrent assets	<b>19,200</b>	23,500
Total assets	<b>4,898,502</b>	4,398,349
<b>Liabilities</b>		
Current liabilities	<b>37,674</b>	29,235
Noncurrent liabilities	<b>28,656</b>	47,447
Total liabilities	<b>66,330</b>	76,682
<b>Net position</b>		
Restricted for benefit payments	<b>4,810,076</b>	4,299,379
Restricted for Reed Act	<b>21,627</b>	21,627
Restricted for STC Administrative	<b>469</b>	661
Total net position	<b>\$ 4,832,172</b>	\$ 4,321,667

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.

State of Michigan  
 Department of Labor and Economic Opportunity  
 Unemployment Insurance Agency –  
 Unemployment Compensation Fund

Management’s Discussion and Analysis

September 30, 2019

Exhibit B provides a comparative summary of the changes in net position for the years ended September 30, 2019 and 2018, as reported in the statement of revenues, expenses, and changes in net position:

*Exhibit B*

	<b>2019</b> (In Thousands)	<b>2018</b> (In Thousands)
<b>Revenues</b>		
Operating	<b>\$ 1,187,232</b>	\$ 1,239,335
Nonoperating	<b>104,375</b>	87,118
Total revenues	<b>1,291,607</b>	1,326,453
 <b>Expenses</b>		
Operating	<b>780,911</b>	793,369
 Income before transfers	 <b>510,696</b>	 533,084
 Transfers out	 <b>(191)</b>	 (332)
Change in net position	<b>\$ 510,505</b>	\$ 532,752

*Factors Expected to Have an Effect on Future Operations*

Based on the November 2019 University of Michigan’s Research Seminar in Quantitative Economics (RSQE) Forecast, the unemployment rate in Michigan is expected to decline from 4.1 percent in 2019 to 3.9 percent in 2020. Job growth is expected to average 0.7 percent for the 2020 calendar year. As a result, unemployment benefit payments should continue to decline along with a reduction in employer tax rates.



State of Michigan  
Department of Labor and Economic Opportunity  
Unemployment Insurance Agency –  
Unemployment Compensation Fund

Statement of Net Position

September 30, 2019

**Assets**

Current assets:

Cash	\$ 11,252,877
Deposits with federal government	4,707,122,099
Receivable from contributing employers, net of allowance of approximately \$76,300,000	143,000,000
Receivable from states under combined wage programs	603,129
Due from State of Michigan funds	591,852
Due from State of Michigan component units	293,888
Due from federal agencies	710,214
Receivable from local governments and nonprofit entities, net of allowance of approximately \$6,400,000	15,728,234

Total current assets	4,879,302,293
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Noncurrent assets:

Benefit overpayments, net of allowance of \$181,100,000	19,200,000
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Total assets	4,898,502,293
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**Liabilities**

Current liabilities:

Accounts payable and accrued liabilities	4,764,062
Employer overpayments	22,484,228
Due to State of Michigan agencies	66,656
Due to State of Michigan funds	4,250,269
Due to federal agencies	3,396,810
Due to local governments and nonprofit entities	841,227
Other liabilities	1,870,608

Total current liabilities	37,673,860
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Noncurrent liabilities:

Employer overpayments, net of current portion	28,656,406
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Total liabilities	66,330,266
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**Net Position**

Restricted for benefit payments	4,810,075,619
Restricted for Reed Act	21,627,039
Restricted for Short Time Compensation	469,081
Restricted for American Recovery and Reinvestment Act	288
Total net position	\$ 4,832,172,027

State of Michigan  
 Department of Labor and Economic Opportunity  
 Unemployment Insurance Agency –  
 Unemployment Compensation Fund

Statement of Revenues, Expenses, and Changes in Net Position

Year Ended September 30, 2019

Operating revenues:	
Federal:	
Unemployment contributions	\$ 1,161,277,864
Federal programs	5,802,195
Miscellaneous	20,152,300
Total operating revenues	<u>1,187,232,359</u>
Operating expenses:	
Unemployment benefits	775,108,625
Federal program claimants	5,802,195
Total operating expenses	<u>780,910,820</u>
Operating income	406,321,539
Nonoperating revenues:	
Federal credit reduction	8,685
Interest earned	104,366,083
Total nonoperating revenues	<u>104,374,768</u>
Income before transfers	510,696,307
Transfers out	<u>(191,355)</u>
Change in net position	510,504,952
Total net position at beginning of year	<u>4,321,667,075</u>
Total net position at end of year	<u><u>\$ 4,832,172,027</u></u>

State of Michigan  
Department of Labor and Economic Opportunity  
Unemployment Insurance Agency –  
Unemployment Compensation Fund

Statement of Cash Flows

Year Ended September 30, 2019

Cash flows from operating activities:	
Cash received from federal programs	\$ 6,083,751
Cash received from unemployment contributions	1,163,220,566
Cash received from miscellaneous sources	20,152,300
Payments of unemployment benefits and to federal program claimants	<u>(776,897,832)</u>
Net cash provided by operating activities	412,558,785
Cash flows from noncapital financing activities:	
Transfers out	(514,146)
Receipts of FUTA credits	<u>8,685</u>
Net cash used in noncapital financing activities	(505,461)
Cash flows from investing activities:	
Interest earned	<u>104,366,083</u>
Net cash provided by investing activities	<u>104,366,083</u>
Net change in cash	516,419,407
Cash at beginning of year	<u>4,201,955,569</u>
Cash at end of year	<u>\$ 4,718,374,976</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 406,321,539
Net changes in assets and liabilities:	
Receivables	12,120,741
Due from State of Michigan funds	(88,877)
Due from State of Michigan component units	1,730
Due from federal agencies	(66,978)
Benefit overpayments	4,300,000
Accounts payable and accrued liabilities	33,169
Due to State of Michigan agencies	37,386
Due to State of Michigan funds	2,052,318
Employer overpayments	(12,180,596)
Due to federal agencies	348,534
Other liabilities	<u>(320,181)</u>
Net cash provided by operating activities	<u>\$ 412,558,785</u>
Schedule of noncash financing activities:	
Due to State of Michigan funds	<u>\$ (8,822)</u>

State of Michigan  
Department of Labor and Economic Opportunity  
Unemployment Insurance Agency –  
Unemployment Compensation Fund

Notes to Financial Statements

September 30, 2019

**1. General Activities and Significant Accounting Policies**

The Unemployment Compensation Fund of the State of Michigan Department of Labor and Economic Opportunity, 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. 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.

State of Michigan  
Department of Labor and Economic Opportunity  
Unemployment Insurance Agency –  
Unemployment Compensation Fund

Notes to Financial Statements

September 30, 2019

**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, 2019.

**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, 2019.

**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 State of Michigan Unemployment Insurance Agency was \$191,355 for the fiscal year ended September 30, 2019.

**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.

State of Michigan  
Department of Labor and Economic Opportunity  
Unemployment Insurance Agency –  
Unemployment Compensation Fund

Notes to Financial Statements

September 30, 2019

**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 \$8,685 for the year ended September 30, 2019.

**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.

State of Michigan  
Department of Labor and Economic Opportunity  
Unemployment Insurance Agency –  
Unemployment Compensation Fund

Notes to Financial Statements

September 30, 2019

**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 as of September 30, 2019 is \$11,252,877. The deposits reflected in the accounts at the bank were \$22,010,131 as of September 30, 2019. Of the bank balance, all amounts are covered by federal depository insurance or 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, 2019.

State of Michigan  
Department of Labor and Economic Opportunity  
Unemployment Insurance Agency –  
Unemployment Compensation Fund

Notes to Financial Statements

September 30, 2019

**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 \$4,707,122,099 as of September 30, 2019. 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, 2019.

**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.



State of Michigan  
Department of Labor and Economic Opportunity  
Unemployment Insurance Agency –  
Unemployment Compensation Fund

Notes to Financial Statements

September 30, 2019

**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, 2019, 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, 2019 were:

Special Issue Bonds:

\$ 7,833,239 – 2.500% maturing June 30, 2020

\$34,115,622 – 2.375% maturing June 30, 2020

\$42,412,520 – 2.375% maturing June 30, 2020

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.

State of Michigan  
Department of Labor and Economic Opportunity  
Unemployment Insurance Agency –  
Unemployment Compensation Fund

Notes to Financial Statements

September 30, 2019

**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 elected not to purchase 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. Areas of risk where some level of insurance coverage is purchased include: aircraft liability, property and loss rental insurance that may be required by bond or lease agreements, portions of the State employee insurance benefits program, certain State artifacts, builder's risk coverage, boiler and machinery coverage, and employee bonding. Settled claims have not exceeded commercial coverage in any of the past ten fiscal years.

State of Michigan  
Department of Labor and Economic Opportunity  
Unemployment Insurance Agency –  
Unemployment Compensation Fund

Notes to Financial Statements

September 30, 2019

**6. Risk Management (continued)**

The State of Michigan has established two internal service funds to account for certain aspects of the risk management program. Fund expenditures (expenses) are recognized in the paying funds in a manner similar to purchased commercial insurance. For other uninsured losses not covered by an internal service fund program, such as general liability and property losses, the Fund recognizes liabilities and records expenditures when a loss is due and payable.

For unemployment claims, the Unemployment Compensation Fund of the State of Michigan Unemployment Insurance Agency bills the State of Michigan for the actual amount of claims paid to former State employees. The State of Michigan accrues liabilities in the governmental fund financial statements for unemployment compensation, only to the extent paid by the Fund through September 30.

**7. Contingencies**

The Fund 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. In the opinion of management, the amount of such requests, if any, will not have a material effect on the financial position of the Fund.