

Audited Financial Statements

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

*Year Ended September 30, 2023
with Report of Independent Auditors*

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

Audited Financial Statements

Year Ended September 30, 2023

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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 Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Administration 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, 2023, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of September 30, 2023, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Fund, and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Administration 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, 2023, or the changes in its financial position 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.

Responsibilities of Management 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 and for 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.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

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 basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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.

Management has omitted budget to actual comparison schedules that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2023, on our consideration of the Fund'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 solely 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 the Fund's 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 Fund's internal control over financial reporting and compliance.

Andrews Hooper Pavlik PLC

Bloomfield Hills, Michigan
December 21, 2023

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

Management's Discussion and Analysis

Year Ended September 30, 2023

Our discussion and analysis of the Administration Fund (Fund) of the State of Michigan Department of Labor and Economic Opportunity, Unemployment Insurance Agency's governmental fund financial performance provides an overview of the Fund's activities for the year ended September 30, 2023.

The Fund was established as a Special Revenue fund of the State of Michigan under the provisions of the Michigan Employment Security Act of 1936 to account for the expenditures of administration of the Unemployment Compensation and Contingent funds of the State of Michigan Department of Labor and Economic Opportunity, Unemployment Insurance Agency. 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 Labor and Economic Opportunity, Unemployment Insurance Agency.

Financial Highlights

The Fund showed a decrease of \$73.6 million in Federal Grant Revenue. Revenue is earned on a cost reimbursement basis and relates directly to federal expenditures. The Administration Fund accounts for administrative expenditures of the Unemployment Insurance Agency. The Administration Fund does not incur or pay expenditures for benefit payments, as these expenditures are incurred and paid by the Unemployment Compensation Fund of the State of Michigan. The decrease in Federal Grant Revenue was due to the end of the pandemic and the decline in need for pandemic-related services during the year.

The Fund also showed a decrease of \$63.0 million in Expenditures primarily due to a continued decrease in staffing costs as a result of a reduction in pandemic related unemployment claims.

Spending related to appropriations from the Contingent Fund Penalty & Interest Account accounted for \$43.1 million in expenditures, which is reflected as transfers in on a cost reimbursement basis from the State of Michigan Department of Labor and Economic Opportunity, Unemployment Insurance Agency – Contingent Fund. \$20.8 million was used to fund Information Technology related administration expenditures of the Fund, \$9.5 million was used to fund the Going PRO program, which supports professional trade programs in Michigan, and \$6.6 million was used to fund the Temporary Assistance to Needy Families Program and the Healthy Michigan Plan, which provide career pathways and wrap-around services to structurally unemployed and working poor.

State of Michigan
 Department of Labor and Economic Opportunity
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Management’s Discussion and Analysis

Year Ended September 30, 2023

Using this Annual Financial Report

The annual report includes this management’s discussion and analysis report, the independent auditor’s 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.

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. The Fund’s financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting.

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 fund balance as of September 30, 2023 and 2022:

Exhibit A

	2023	2022
Assets		
Total assets (all current)	\$ 6,860,713	\$ 38,778,543
Liabilities		
Total liabilities (all current)	6,860,713	38,778,543
Fund Balance		
Total fund balance	\$ -	\$ -

The majority of the decrease of \$31.9 million in both total assets and total liabilities was caused by a decrease in the receivable from the State of Michigan Department of Labor and Economic Opportunity, Unemployment Insurance Agency – Compensation Fund of \$21.6 million related to a fiscal year 2022 appropriation for remaining Reed Act dollars. All \$21.6 million was used to fund administrative costs of the Unemployment Insurance Agency in fiscal year 2022. The remaining decrease was the result of the timing of expenditures and the draws to fund those expenditures.

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 Department of Labor and Economic Opportunity
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Management’s Discussion and Analysis

Year Ended September 30, 2023

The results of this year’s operations for the Fund are reported in the Statement of Revenues, Expenditures, and Changes in Fund Balance, as summarized in Exhibit B below, which shows the changes in fund balance for the years ended September 30, 2023 and 2022.

Exhibit B

	2023	2022
Revenues		
Federal	\$ 149,199,291	\$ 222,774,916
Miscellaneous	-	11,450
Total revenues	149,199,291	222,786,366
Expenditures		
Current – labor, commerce, and regulatory	190,897,645	253,681,991
Debt service – lease principal and interest payments	1,169,157	1,561,751
Capital outlay	214,858	-
Total expenditures	192,281,660	255,243,742
Other financing sources (uses)		
Transfers in	45,048,731	34,924,583
Transfers out	(2,181,220)	(2,467,207)
Vendor financing acquisition	214,858	-
Total other financing sources	43,082,369	32,457,376
Change in fund balance	\$ -	\$ -

Overall, the Unemployment Administration Fund decreased spending by \$63.0 million. The unemployment spending decrease was primarily due to the continued decline in pandemic-related services. In addition, there was an increase of \$10.1 million of transfers in. This increase was caused by a \$21.6 million reduction of transfers in of Reed Act funding from the Unemployment Insurance Agency – Compensation Fund, offset by an increase in Administration Fund expenditures for programming and operations funded by the Contingent Fund Penalty & Interest Account of the Unemployment Insurance Agency – Contingent Fund.

Factors Expected to Have an Effect on Future Operations

During fiscal year 2020, the Unemployment Compensation Fund received approximately \$29.1 million under the Families First Coronavirus Response Act which is restricted for use by the Administration Fund. The Administration Fund cumulatively spent \$11.7 million through September 30, 2023, leaving a balance of \$17.4 million.

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Balance Sheet

September 30, 2023

Assets

Current assets:

Due from federal agencies	\$ 3,920,503
Due from State of Michigan funds	1,936,460
Due from local units	<u>1,003,750</u>
Total assets	<u><u>\$ 6,860,713</u></u>

Liabilities

Current liabilities:

Accounts payable and accrued liabilities	\$ 4,497,611
Due to State of Michigan funds	<u>2,363,102</u>
Total liabilities	6,860,713

Fund Balance

Fund balance – unassigned	<u>-</u>
Total liabilities and fund balance	<u><u>\$ 6,860,713</u></u>

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Statement of Revenues, Expenditures, and Changes in Fund Balance

Year Ended September 30, 2023

Revenues:	
From federal agencies	\$ 149,199,291
Expenditures:	
Current – labor, commerce, and regulatory	190,897,645
Debt service – lease principal and interest payments	1,169,157
Capital outlay	214,858
Total expenditures	<u>192,281,660</u>
Excess of revenues over (under) expenditures	(43,082,369)
Other financing sources (uses):	
Transfers in	45,048,731
Transfers out	(2,181,220)
Vendor financing acquisition	214,858
Total other financing sources	<u>43,082,369</u>
Change in fund balance	-
Fund balance at beginning of year	-
Fund balance at end of year	<u><u>\$ -</u></u>

State of Michigan
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Notes to Financial Statements

September 30, 2023

1. General Activities and Significant Accounting Policies

The Administration Fund (Fund) of the State of Michigan Department of Labor and Economic Opportunity, Unemployment Insurance Agency (Agency) 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 is a Special Revenue fund which accounts for the expenditures of the administration of the Unemployment Compensation and Contingent funds of the State of Michigan Department of Labor and Economic Opportunity, Unemployment Insurance Agency. The Fund derives a substantial portion of its revenue from federal grants.

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

Budgetary Control

Appropriations and revenue estimates for the Fund are approved annually by the State of Michigan legislature. If revenues fall short of estimates, related spending authorizations are reduced. If revenues exceed the estimate, supplemental appropriations are required before they can be spent.

Budgetary control of spending is maintained at the appropriation line-item level, and appropriations lapse at the end of each fiscal year. There were no overexpenditures by the Fund during the year ended September 30, 2023.

Basis of Accounting

The Fund's financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Fund generally considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

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Notes to Financial Statements

September 30, 2023

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 the current year.

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 in the current year.

Adopted Accounting Standard

On October 1, 2022, the Fund implemented Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements*. The Statement establishes that a subscription-based information technology arrangement (SBITA) results in a right-to-use subscription asset and corresponding subscription liability that should be recorded in the governmental financial statements. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. The requirements of this standard were adopted for the September 30, 2023 financial statements. The adoption of this standard did not have an impact on the Fund.

2. Transfers

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

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Notes to Financial Statements

September 30, 2023

3. Vendor Financing

The Fund leases various buildings and equipment under non-cancelable leasing arrangements exceeding one year. Lease arrangements are summarized as follows as of September 30, 2023:

<u>Lease</u>	<u>Date</u>	<u>Term (With Extensions)</u>	<u>FY 2023 Payment Amount</u>	<u>Interest Rate</u>	<u>Current Year Additional Outflows</u>
Building- GR	12/01/2007	30 years	\$ 100,879	1.92%	\$ 60,851
Building- SH	02/01/2019	20 years	59,209	1.92%	38,747
Building- LAN	01/01/2019	30 years	234,359	2.49%	200,912
Building- SAG	11/01/2018	20 years	222,817	1.92%	200,834
Building- HAM	05/01/2016	20 years	223,080	1.31%	264,420
Building- GAY	08/01/2013	25 years	13,788	1.92%	18,129
Office equipment	08/28/2018	5 years	315,025	0.79%	-
Total			<u>\$1,169,157</u>		<u>\$ 783,893</u>

The office equipment lease in the chart above was amended in September of 2023, which resulted in the arrangement subsequently being recognized as a financed purchase, as described later in this footnote.

The State of Michigan Department of Labor and Economic Opportunity leases an 8,975 square foot facility at 3391-A Plainfield Avenue NE, Grand Rapids, Michigan. The lease was approved by the State Administrative Board and executed on July 3, 2007, for occupancy which began on December 1, 2007, at which time rent payments began. The lease has an original expiration date of November 30, 2017 with one ten-year extension option, followed by two five-year extension options. The first ten-year extension option has been exercised.

The State of Michigan Department of Labor and Economic Opportunity leases a 7,256 square foot facility at 43015 Hayes Road, Sterling Heights, Michigan. The lease was approved by the State Administrative Board and executed on October 30, 2018, for occupancy which began on February 1, 2019, at which time rent payments began. The lease expires January 31, 2029, and has two five-year extension options.

The State of Michigan Department of Labor and Economic Opportunity leases a 22,909 square foot facility at 5200 Jolly Cedar Court, Lansing, Michigan. The lease was approved by the State Administrative Board and executed on May 8, 2018, for occupancy which began on January 1, 2019. Rent payments began March 1, 2019. The lease expires December 31, 2038, and has two five-year extension options.

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3. Vendor Financing (continued)

The State of Michigan Department of Labor and Economic Opportunity leases a 22,900 square foot facility at 515 North Washington Avenue, Saginaw, Michigan. The lease was approved by the State Administrative Board and executed on March 13, 2018, for occupancy which began on November 1, 2018, at which time rent payments began. The lease expires October 31, 2028 and has two five-year extension options.

The State of Michigan Department of Labor and Economic Opportunity leases a 39,000 square foot facility at 9023 Joseph Campau Street, Hamtramck, Michigan. The lease was approved by the State Administrative Board and executed on September 1, 2015, for occupancy which began on May 1, 2016. Rent payments began July 1, 2016. The lease expires April 30, 2026 and has two five-year extension options.

The State of Michigan Department of Labor and Economic Opportunity leases a 6,050 square foot facility at 931 South Otsego Avenue, Gaylord, Michigan. The lease was approved by the State Administrative Board and executed on August 6, 2013, for occupancy which began on August 1, 2013. Rent payments began October 1, 2013. The lease expires July 31, 2033 and has one five-year extension option.

To determine the interest rate for each lease in the schedule above, the Fund applied an estimate of its incremental borrowing rate, determined based on the Fidelity “Municipal GO AA” bond index with a maturity date closest to the lease term as of the most recently ended quarter. The current year’s additional outflows represent the estimated share of the operating costs for the rented office space paid to the lessor as part of the lease agreement.

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September 30, 2023

3. Vendor Financing (continued)

Lease commitments consisting of principal, interest, and additional amounts due are as follows as of September 30, 2023:

Fiscal Year Ending September 30	Principal	Interest	Additional Amounts Due	Total
2024	\$ 580,185	\$ 279,830	\$ 784,333	\$ 1,644,348
2025	590,994	269,021	784,333	1,644,348
2026	641,123	257,892	784,333	1,683,348
2027	692,240	245,775	784,333	1,722,348
2028	715,106	233,193	784,333	1,732,632
2029 – 2033	4,332,277	945,376	3,921,664	9,199,317
2034 – 2038	4,203,517	529,585	3,204,835	7,937,937
2039 – 2043	1,218,294	265,449	1,064,455	2,548,198
2044 – 2048	1,394,706	109,270	1,004,560	2,508,536
2049	150,450	1,093	100,456	251,999
Total	\$ 14,518,892	\$ 3,136,484	\$ 13,217,635	\$ 30,873,011

The Fund entered into a short-term lease agreement during September 2023. The lease term commenced subsequent to year end on October 1, 2023, and concludes on September 30, 2024. Future obligations related to the lease are approximately \$3.1 million, are due during the year ending September 30, 2024, and are not included in the schedule above.

In addition to the leases described above, the State of Michigan Department of Labor and Economic Opportunity has entered into an agreement for a financed purchase of large-scale high-speed printers for printing/ mailing services for the Unemployment Insurance Multi Service Center. Commitments under the financed purchase arrangement consist of payments totaling \$220,000 in the year ending September 30, 2024, comprised of principal of \$214,858 and interest of \$5,142.

The capital assets and associated liabilities related to the Fund’s leases and financed purchases are accounted for in the statewide financial statements contained in the State of Michigan Annual Comprehensive Financial Report.

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4. Retirement Plans

Substantially all of the Fund's employees are covered by a statewide defined benefit pension plan (Michigan State Employees' Retirement System) established by the State of Michigan. The plan provides retirement benefits (including postemployment benefits of health, dental, and vision, as well as life insurance) to all state employees who are not covered by other state retirement systems and were participants in the plan prior to March 31, 1997 (the date the plan closed to new participants). The Michigan State Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit plan. That report is available on the State of Michigan's website at <http://www.michigan.gov/ors>. Information regarding the plan's net pension benefit obligation; net assets available for benefits; contribution requirements; funded ratio; actuarial valuation, methods, and assumptions; and number of participants is included in the State of Michigan Annual Comprehensive Financial Report or the separately issued Annual Comprehensive Financial Report of the plan. Expenditures for the Fund for this plan for the year ended September 30, 2023 were approximately \$10.8 million.

Fund employees who are not covered by the above described defined benefit pension plan are covered by a defined contribution plan (State Employees' Deferred Compensation Plan II) sponsored by the State of Michigan. Employees hired after March 31, 1997 become eligible on the first day of employment in this plan as long as they are not covered by other state retirement systems. The financial report for the defined contribution plan may be obtained by writing to the Department of Technology, Management and Budget, Office of Retirement Services, 530 West Allegan St., Lansing, MI, 48933-1524 or by calling (517) 322-5103. The Fund provides for a mandatory contribution of 4% of each employee's annual compensation to the plan. The Fund is also required to make matching contributions equal to elective deferrals to the plan, up to a maximum of 3% of each employee's annual compensation. Employees are 100% vested in their salary deferrals at all times and are vested in employer contributions based on years of service over a four year period. Expenditures for the Fund for this plan for the year ended September 30, 2023 were approximately \$3.9 million.

The Fund participates in the State of Michigan's postemployment benefit plan. State statutes provide retired employees with other postemployment benefits, such as health, dental, vision, and life insurance coverage based on vesting and other requirements. The State pays 80% of the cost of health insurance for retired employees that were hired on or before March 30, 1997. For retired employees hired after March 30, 1997 and before January 1, 2012, the State pays between 30% and 80% of the cost of health insurance depending on the years of service. Employees hired on or after January 1, 2012 will not be eligible for any retiree health insurance coverage but will become a participant in the Personal Healthcare Fund where they will contribute up to 2% of their compensation into a 401(k) or 457 account, earning a matching 2% employer contribution. Also,

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4. Retirement Plans (continued)

the employee will receive a credit into a health reimbursement account at termination of employment if he or she has at least 10 years of service at termination. The credit will be \$2,000 for participants who are at least 60 years old or \$1,000 for participants who are less than 60 years old at termination. Expenditures for the Fund for this plan for the year ended September 30, 2023 were approximately \$7.8 million.

5. Compensated Absences

Employees accumulate annual leave (vacation) balances to a maximum ranging from 240 to 300 hours. They receive a 100% termination payment upon separation based upon their final rate of pay. Employee sick leave balances accumulate without limit. Termination payments are made only upon separation from State of Michigan service and only to employees hired prior to October 1, 1980. Payments at retirement or death are based on 50% of the employee's sick leave accumulation multiplied by the last rate of pay. When separating for any other reason, employees are paid a percentage of their unused sick leave, which increases from 0% to 50% depending upon the balance of their sick leave hours.

The Fund has accrued liabilities for compensated absences as required by the GASB. Annual leave is valued at 100% of the balance plus the Fund's share of Social Security and retirement contributions. Sick leave is valued, as explained above, at 0% to 50%, plus the Fund's share of Social Security contributions. The pay rates in effect as of September 30, 2023 are used. Liabilities are considered "due and payable" and recorded only for separations or transfers that occur before year-end and are paid with expendable, available resources.

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 10 fiscal years.

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September 30, 2023

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 Department of Labor and Economic Opportunity 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 Unemployment Compensation Fund through September 30.

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 from 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. Commitment

The Fund has made a commitment to purchase a printer system for a total purchase price of approximately \$1.9 million. This purchase is expected to take place during the year ending September 30, 2024.

9. COVID-19

During the year ended September 30, 2023, administrative activity continued to occur at the Unemployment Insurance Agency related to pandemic-specific benefit programs. Those programs originated as a result of the COVID-19 pandemic, which began in March 2020.

CARES Act Administrative Distribution

On April 1, 2020 and April 4, 2020, the Unemployment Compensation Fund received cumulative distributions totaling \$29,109,491 that were prescribed by the Families First Coronavirus Response (FFCR) Act, Public Law (Pub. L.) 116-127, specifically Division D, the Emergency Unemployment Insurance Stabilization and Access Act of 2020 (EUISAA) stipulates this money

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September 30, 2023

9. COVID-19 (continued)

CARES Act Administrative Distribution (continued)

may be used for the costs of administration of the unemployment compensation program. The Unemployment Compensation Fund accounted for this funding as federal revenue in fiscal year 2020 and as a component of restricted net position as of September 30, 2020. The Fund requests transfers from the Unemployment Compensation Fund as the Fund incurs related reimbursable expenditures, at which time the expenditures and related transfer in will be recorded in the Fund's financial statements. Approximately \$17.4 million of this funding remained unspent as of September 30, 2023.