

Audited Financial Statements

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

*Year Ended September 30, 2023  
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, 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 Unemployment Compensation Fund (Fund) of the State of Michigan Department of Labor and Economic Opportunity, Unemployment Insurance Agency (Agency) as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the 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 and cash flows 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 Unemployment Compensation 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 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, 2023, 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.

## ***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 Unemployment Compensation 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 the 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 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 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.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2023, on our consideration of the Compensation 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 Unemployment Compensation 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 Unemployment Compensation Fund's internal control over financial reporting and compliance.

*Andrews Hooper Paulik PLC*

Bloomfield Hills, Michigan  
December 14, 2023

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

September 30, 2023

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, Unemployment Insurance Agency. 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's net position increased by \$585 million during the year. The current trust fund balance is \$2.3 billion; as of 9/30/2023, Michigan was ranked 7<sup>th</sup> in the nation in absolute size, the same as last year.
- Although the percentage of fund balance to total insured wages (a solvency indicator) increased from 0.4 percent to 0.8 percent. Despite this, Michigan maintained its rank of 35<sup>th</sup> in the nation.
- Operating income decreased from \$563 million during fiscal year 2022, to an operating income of \$545 million during fiscal year 2023. This represents a \$167 million decrease in operating revenue and a \$149 million decrease in operating expense compared to the prior year.
- The Fund earned approximately \$40.2 million in interest income, increasing from \$20 million the prior year. The 2.01% average yield increased from 2022's yield of 1.61%. In addition, the agency earned \$2.4 million in interest on deposits on account with JPMorgan Chase. All interest earned is deposited into the Trust Fund.

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- The agency utilized \$1.9 million of Cares Act funding for Pandemic Unemployment Assistance (PUA) administrative expenses.
- The agency implemented a claimant collection pause that resulted in a \$5.7 million decrease in restitution receivable collections. In 2023, the agency collected \$4.6 million for nonfederal program restitution receivables compared to \$10.3 million collected in 2022.

*Financial Analysis of the Fund*

Our analysis provides an overview of the financial performance of the State of Michigan, Department of Labor and Economic Opportunity, Unemployment Insurance Agency’s Unemployment Compensation Fund.

The Statement of Net Position presents information on 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, the American Recovery and Reinvestment Act Modernization Incentive, Special Administrative distributions, and the CARES Act. The net position for these distributions is restricted for certain costs of administration of unemployment compensation programs and employment services.

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Management’s Discussion and Analysis

September 30, 2023

Exhibit A provides the comparative summary of the Fund’s net position as of September 30, 2023 and 2022:

*Exhibit A*

	<b>2023</b>	<b>2022</b>
	(In Thousands)	(In Thousands)
<b>Assets</b>		
Current assets	<b>\$ 2,682,330</b>	\$ 2,118,537
Noncurrent assets	<b>10,300</b>	22,800
Total assets	<b>2,692,630</b>	2,141,337
 <b>Liabilities</b>		
Current liabilities	<b>398,500</b>	431,807
Noncurrent liabilities	<b>34,459</b>	35,274
Total liabilities	<b>432,959</b>	467,081
 <b>Net position</b>		
Restricted for benefit payments	<b>2,242,183</b>	1,654,831
Restricted for CARES Act Administrative	<b>17,403</b>	19,340
Restricted for STC Administrative	<b>85</b>	85
Total net position	<b>\$ 2,259,671</b>	\$ 1,674,256

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 result in cash flows in future fiscal periods.



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Exhibit B provides a comparative summary of the changes in net position for the years ended September 30, 2023 and 2022, as reported in the statement of revenues, expenses, and changes in net position:

*Exhibit B*

	<b>2023</b> (In Thousands)	<b>2022</b> (In Thousands)
<b>Revenues</b>		
Operating	<b>\$ 1,279,397</b>	\$ 1,446,245
Nonoperating	<b>42,680</b>	19,954
Total revenues	<b>1,322,077</b>	1,466,199
 <b>Expenses</b>		
Operating	<b>734,726</b>	883,460
 Income before transfers	<b>587,351</b>	582,739
 Transfers in	-	104,279
Transfers out	<b>(1,936)</b>	(21,627)
Change in net position	<b>\$ 585,415</b>	\$ 665,391

*Factors Expected to Have an Effect on Future Operations*

Based on the September 2023 University of Michigan Research Seminar on Quantitative Economics (RSQE) Forecast, the unemployment rate in Michigan is expected to reach 4.1 percent by the middle of 2024 following the strike in the automotive industry and below-trend economic growth nationally. The labor force participation rate is expected to remain flat, at around 61 percent.

Broad employer non-charging provisions adopted as part of the response to the Coronavirus pandemic will continue to have an impact on future revenues. An experience-based tax system is designed to adjust employer tax rates upward in response to increased benefit costs, such that the fund can recoup the cost of those benefits. Non-charging provisions during the pandemic meant that the fund experienced a significant increase in benefit costs, but there was no resulting tax rate increase to cover the cost of those benefits. While the fund is not currently projected to become insolvent during the coming fiscal year, the fund will need to be closely monitored if a recession occurs.

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The Lost Wages Assistance (LWA) grant was closed out as of September 27, 2022. The LWA program, administered by FEMA, requires states to repay any overpayments at the time the program is finalized. The final balance of overpayments requiring repayment will depend both on future overpayment determinations and on collections. Although the overpayment amount for the LWA program at the time of the closeout was approximately \$173 million, the current balance is approximately \$140 million. This amount cannot be repaid from the unemployment trust fund but could potentially be paid from the Contingent fund. The final source of funds will depend on state appropriation decisions.

On December 22, 2022, the Agency implemented a collection pause for claimants who have been deemed to be overpaid and received benefits during the pandemic. The pause will allow time for the agency to address protests and appeals of overpayment determinations before collection activity commences. The length of the pause is undetermined but is dependent on pending litigation. Although the collections pause is not expected to impact employer collections, it is expected to reduce collections on restitution receivables and penalty and interest for the contingent fund.

In 2023, the State of Michigan, Department of Labor and Economic Opportunity Unemployment Insurance Agency began discussions and planning with Deloitte for its new programed software system. This system will replace our current system for workers and employers. The new system is expected to become fully operational in 2025.

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Statement of Net Position

September 30, 2023

**Assets**

Current assets:

Cash	\$ 138,961,483
Deposits with federal government	2,314,915,933
Receivable from contributing employers, net of allowance of approximately \$29,200,000	136,300,000
Receivable from states under combined wage programs	123,923
Due from State of Michigan funds	610,011
Due from State of Michigan component units	206,462
Due from federal agencies	71,352,445
Receivable from local governments and nonprofit entities, net of allowance of approximately \$5,200,000	10,716,034
Other current assets	<u>9,143,322</u>
Total current assets	<u>2,682,329,613</u>

Noncurrent assets:

Benefit overpayments, net of allowance of \$2,891,900,000	<u>10,300,020</u>
Total assets	<u><u>\$ 2,692,629,633</u></u>

**Liabilities**

Current liabilities:

Accounts payable and accrued liabilities	\$ 279,442,294
Employer overpayments	23,696,160
Due to State of Michigan component units	6,673
Due to State of Michigan funds	4,890,541
Due to federal agencies	6,762,794
Due to local governments and nonprofit entities	3,558,859
Other liabilities	<u>80,142,364</u>
Total current liabilities	398,499,685

Noncurrent liabilities:

Employer overpayments, net of current portion	<u>34,458,948</u>
Total liabilities	432,958,633

**Net Position**

Restricted for benefit payments	2,242,182,453
Restricted for CARES Act administration	17,403,447
Restricted for Short Time Compensation	84,812
Restricted for American Recovery and Reinvestment Act	288
Total net position	<u><u>\$ 2,259,671,000</u></u>

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Statement of Revenues, Expenses, and Changes in Net Position

Year Ended September 30, 2023

Operating revenues:	
Federal:	
Unemployment contributions	\$ 1,206,965,550
Federal programs	66,470,706
Miscellaneous	5,961,062
Total operating revenues	<u>1,279,397,318</u>
Operating expenses:	
Unemployment benefits	668,254,903
Federal program claimants	66,470,706
Total operating expenses	<u>734,725,609</u>
Operating income	544,671,709
Nonoperating revenues:	
Interest earned	<u>42,679,848</u>
Income before transfers	587,351,557
Transfers in	-
Transfers out	<u>(1,936,460)</u>
Change in net position	585,415,097
Total net position at beginning of year	<u>1,674,255,903</u>
Total net position at end of year	<u><u>\$ 2,259,671,000</u></u>

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Statement of Cash Flows

Year Ended September 30, 2023

Cash flows from operating activities:	
Cash received from federal programs	\$ 18,533,373
Cash received from unemployment contributions	1,272,920,623
Cash received from miscellaneous sources	5,961,062
Payments of unemployment benefits and to federal program claimants	<u>(705,651,435)</u>
Net cash provided by operating activities	591,763,623
Cash flows from noncapital financing activities:	
Transfers in	-
Transfers out	<u>(23,870,860)</u>
Net cash provided by noncapital financing activities	(23,870,860)
Cash flows from investing activities:	
Interest earned	<u>42,679,848</u>
Net cash provided by investing activities	<u>42,679,848</u>
Net change in cash	610,572,611
Cash at beginning of year	<u>1,843,304,805</u>
Cash at end of year	<u><u>\$ 2,453,877,416</u></u>
Reconciliation of cash and cash equivalents:	
Per statement of net position classifications	
Cash	\$ 138,961,483
Deposits with federal government	2,314,915,933
Cash at end of year	<u><u>\$ 2,453,877,416</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 544,671,709
Net changes in assets and liabilities:	
Receivables	13,022,566
Due from State of Michigan funds	3,918,696
Due from State of Michigan component units	1,507,244
Due from federal agencies	(26,086,862)
Other current assets	54,418,075
Benefit overpayments	12,500,000
Accounts payable and accrued liabilities	19,306,333
Due to State of Michigan component units	(12,188)
Due to State of Michigan funds	2,130,674
Employer overpayments	(9,029,995)
Due to federal agencies	(21,850,473)
Other liabilities	<u>(2,732,156)</u>
Net cash provided by operating activities	<u><u>\$ 591,763,623</u></u>
Schedule of noncash financing activities:	
Due to State of Michigan funds	<u><u>\$ (1,936,460)</u></u>

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Notes to Financial Statements

September 30, 2023

**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 Annual Comprehensive 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. Deposits with the federal government consist 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.

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Notes to Financial Statements

September 30, 2023

**1. General Activities and Significant Accounting Policies (continued)**

**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, which left \$288 of funds available as of September 30, 2023.

**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. No amounts were released from restriction during the fiscal year, which left a balance of \$84,812 for the fiscal year ended September 30, 2023.

**CARES Act Administrative Distribution**

On April 1, 2020 and April 4, 2020, the 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). The EUISAA stipulates the Fund may use this money for the costs of administration of the unemployment compensation program. During the year, \$1,936,460 was utilized for Pandemic Unemployment Assistance (PUA) administrative expenses, which left a balance of \$17,403,447 for the fiscal year ended September 30, 2023.

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

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

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September 30, 2023

**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.

There was no FUTA adjustment for the year ended September 30, 2023.

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



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Notes to Financial Statements

September 30, 2023

## 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 deposits 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 deposits reflected in the accounts at the bank were \$144,230,286 as of September 30, 2023. Of the bank balance, \$144,230,286 was covered by federal depository insurance or by collateral held in book-entry securities by pledging custodial banks at a Federal Reserve Bank and no deposit amounts were not covered.

### **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, 2023.

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### 3. Deposits with Federal Government

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

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

The Fund’s pro-rata share of the above-described U.S. Treasury trust fund pool was \$2,314,915,933 as of September 30, 2023. 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, 2023.

#### **U.S. Treasury Trust Fund Pool Investments**

##### **Types of Investments**

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

##### **Risk**

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

##### **Custodial Credit Risk**

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

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

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

**Custodial Credit Risk (continued)**

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

The counterparty, or

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

The Fund does not have an investment policy for managing custodial credit risk. As of September 30, 2023, 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, 2023 were:

Certificates of Indebtedness and Special Interest Bonds (in thousands):

\$ 8,741,342 – 2.750% maturing June 30, 2024

\$ 602,302 – 2.875% maturing June 30, 2024

\$72,502,039 – Special Interest Bonds

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

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

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

**Concentration of Credit Risk**

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

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

**Foreign Currency Risk**

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

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

**4. Employer Overpayments**

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

**5. Transfers**

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

**6. Risk Management**

The State of Michigan has 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.

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**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 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. During fiscal year 2023, expenditures for payments to former State employees (not including university employees) were \$4.0 million. The potential liability for future payments cannot be estimated.

**7. Contingencies, Risks, and Uncertainties**

The Fund participates in several 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.

As of September 30, 2023, the Agency had over 331,000 open potential fraud investigation cases. Nearly 84 percent of these cases involve PUA claims. The total amount of fraudulent benefits issued by the Agency will not be known until all the suspected cases have been thoroughly investigated. Losses attributable to federal funds appropriated by the CARES Act would have no impact on the health of the Fund.

The Agency has not reclassified any amount of benefits expense for losses from fraudulent benefit payments. In response to the increased fraud activity and benefit recipients who typically do not qualify for regular unemployment benefits, the Agency implemented additional staff reviews of claims prior to the release of payments. Payments authorized but pending staff review were recorded to an accrued payable account pending resolution. As of September 30, 2023, the gross accrued benefits payable to claimants pending review was approximately \$122 million. Based on estimated rates of eventual approval for similar claims, the Agency has adjusted this balance, the corresponding receivable from the Federal government, and the associated revenues and expenses by approximately \$17 million for claims not expected to be paid. As this adjustment relates only to federally funded benefits, this adjustment has had no impact on the Fund's net position.

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**7. Contingencies, Risks, and Uncertainties (continued)**

Although the pandemic programs were discontinued at the end of fiscal year 2021, a significant amount of the agency's efforts during the current fiscal year has been spent addressing backlogs, adjudications, and protests associated with these programs. During the fiscal year ended September 30, 2023, the Agency paid approximately \$734 million in unemployment benefits to over 191,000 claimants. These benefits include approximately \$668 million in regular unemployment benefits and approximately \$66 million in federal program benefits.

In December 2022, the Agency implemented a collection pause for claimant overpayments resulting from benefits paid during the pandemic. The pause will allow time for the agency to address protests and appeals of overpayment determinations before collection activity commences. The length of the pause is undetermined but is dependent on pending litigation. In addition to the short-term reduction in overpayment collections, the agency intends to refund amounts previously collected on overpayments associated with the period beginning March 1, 2020. An estimated \$27.6 million is expected to be refunded back to claimants, which has been recorded as a liability in the fiscal year 2023 financial statements.