

UNEMPLOYMENT COMPENSATION FUND

FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS (WITH REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS)



OIG

**FISCAL YEARS ENDED
SEPTEMBER 30, 2015 AND 2014**

**DANIEL W. LUCAS
INSPECTOR GENERAL**

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The mission of the Office of the Inspector General (OIG) is to independently audit, inspect, and investigate matters pertaining to the District of Columbia government in order to:

- prevent and detect corruption, mismanagement, waste, fraud, and abuse;
- promote economy, efficiency, effectiveness, and accountability;
- inform stakeholders about issues relating to District administration and operations; and
- recommend and track the implementation of corrective actions.

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GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General



Inspector General

March 31, 2016

The Honorable Muriel Bowser
Mayor of the District of Columbia
Mayor's Correspondence Unit
1350 Pennsylvania Avenue, N.W., Suite 504
Washington, D.C. 20004

The Honorable Phil Mendelson
Chairman
Council of the District of Columbia
John A. Wilson Building
1350 Pennsylvania Avenue, N.W., Suite 316
Washington, D.C. 20004

Dear Mayor Bowser and Chairman Mendelson:

Enclosed is the final report issued by SB & Company, LLC (SBC) on the Unemployment Compensation Fund financial statement for the years ended September 30, 2015, and 2014 (OIG No. 16-1-05BH). SBC submitted this component report as part of our overall contract for the audit of the District of Columbia's general purpose financial statements for fiscal year 2015.

SBC opined that the Fund's financial statements present fairly in all material respects, in conformity with accounting principles generally accepted in the United States of America. SBC identified no weaknesses in internal control.

If you have any questions concerning this report, please contact me or Toayoa D. Aldridge, Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,

A handwritten signature in blue ink, appearing to read 'D. Lucas', is written over a light blue circular stamp.

Daniel W. Lucas
Inspector General

DWL/lw

Enclosure

cc: See Distribution List

Mayor Bowser and Chairman Mendelson
Unemployment Compensation Fund Financial
Statement for FYs 2015 and 2014 (with
Independent Public Accountants' Report
Thereon)
OIG No. 16-1-05BH
March 31, 2016
Page 2 of 2

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Mr. Graylin (Gray) Smith, Partner, SB and Company, LLC

GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND
FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2015 AND 2014
(Dollar amounts expressed in thousands)

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REPORT OF THE INDEPENDENT AUDITORS

The Mayor and Council of Government of District of Columbia
Inspector General of Government of District of Columbia

Report on the Financial Statements

We have audited the accompanying financial statements of Government of District of Columbia Unemployment Compensation Fund (the Fund), an enterprise fund of the Government of the District of Columbia, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The Fund's 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of September 30, 2015, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



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Other Matters

Other Matter

The financial statements of the Fund for the year ended September 30, 2014, were audited by another auditor who expressed an unmodified opinion on those statements on February 11, 2015.

Emphasis of Matter

The financial statements present only the Fund and do not purport to, and do not present fairly the financial position of the District of Columbia as of September 30, 2015 and 2014, the changes in its financial position or, where applicable its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles. Our opinion is not modified with respect to the matter.

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, 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 January 20, 2016, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Government of the District of Columbia's internal control over financial reporting and compliance.

Washington, DC.
January 20, 2016

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2015 AND 2014**

(Dollar amounts expressed in thousands)

This section of the annual financial report of the District of Columbia Unemployment Compensation Fund (“the Fund”) presents our discussion and analysis of the financial performance of the fund during the fiscal years (FY) ended September 30, 2015 and 2014 compared to the fiscal years ended September 30, 2013. This discussion has been prepared by management and should be read in conjunction with the financial statements and note disclosures. The financial statements, footnote disclosures and management’s discussion and analysis are the responsibility of management.

Reporting Entity

The Fund was established by the Government of the District of Columbia (the District) to account for its unemployment compensation program. The Fund is administered by the District’s Department of Employment Services. Substantially all administrative costs of the program are paid by federal grants and special purpose revenue, which are recorded in the District’s General Fund.

Financial Statement Presentation

The Fund’s basic financial statements consist of (a) statement of net position; (b) statement of revenues, expenses, and changes in net position, and (c) statement of cash flows.

■ Statement of Net Position

The Statement of Net Position presents the Fund’s assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position. Net position is the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. The net position is comprised of three components: 1) net investment in capital assets; 2) restricted net position; and 3) unrestricted net position. Over time, increases or decreases in the Fund’s net position may serve as a useful indicator of whether the Fund’s financial position is improving or deteriorating.

■ Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position presents the Fund’s revenues and expenses. The difference between revenues and expenses is reported as “changes in net position”. All changes in the net position are reported as soon as the event underlying the changes occur regardless of the timing of the related cash flows. Thus, revenues and expenses reported in this statement also include items that will result in cash flow in future fiscal periods (for example, accrued revenues and accrued expenditures).

■ Statement of Cash Flows

The Statement of Cash Flows presents information on sources and uses of cash for operations, noncapital financing, and investing activities.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2015 AND 2014**

(Dollar amounts expressed in thousands)

FINANCIAL HIGHLIGHTS

- The District's average unemployment rate for the fiscal year ended September 30, 2015 was 7.4%, which was a 0.2% decrease compared to 7.6% at the end of FY 2014 and a 1.2% decrease compared to 8.6% at the end of FY 2013
- As of September 30, 2015, the Fund's assets exceeded its liabilities by \$312,483. The Fund reported an increase in net position of \$51,838 or 19.89% in FY 2015 as compared to \$18,693 or 7.73% increase in FY 2014 and \$12,022 or 5.23% increase in FY 2013.

OVERALL FINANCIAL ANALYSIS

The Unemployment Compensation Fund's overall financial position improved as a result of the year's activities. The Fund's financial position and operations for the past three years are summarized in Table 1 and 2.

Table 1- Summary of Net Position

	FY2015	FY2014	Change	FY2013	Change
Assets					
Cash Held with U.S. Treasury	\$357,903	\$317,172	\$40,731	\$311,814	\$5,358
Receivables (net)	11,691	12,621	(930)	21,133	(8,512)
Total Assets	<u>369,594</u>	<u>329,793</u>	<u>39,801</u>	<u>332,947</u>	<u>(3,154)</u>
Liabilities					
Payables	31,608	36,924	(5,316)	55,539	(18,615)
Due to D.C. Government	25,503	32,224	(6,721)	35,456	(3,232)
Total Liabilities	<u>57,111</u>	<u>69,148</u>	<u>(12,037)</u>	<u>90,995</u>	<u>(21,847)</u>
Net Position					
Restricted for Unemployment Compensation Benefits	<u>\$312,483</u>	<u>\$260,645</u>	<u>\$51,838</u>	<u>\$241,952</u>	<u>\$18,693</u>

- The Fund's largest asset is the cash held with U.S. Treasury, which represented 96.84 % of the Fund's total assets. FY2015 cash balance increased by \$40,731 or 12.84% primarily due to the cash receipts from employer taxes and governmental contributions exceeded the unemployment benefit payments. FY2014 cash balance increased by \$5,358 or 1.72% from FY2013.
- Receivables, net of allowance for doubtful accounts, decreased by \$930 or 7.37% in FY2015 mainly due to a decrease in federal receivables. The Fund's receivables consist of amounts due from the Federal government and other states for unemployment benefits paid, employers for unpaid taxes, and claimants for unemployment benefit overpayments. In FY2014, there was a net decrease in receivables of \$8,512 or 40.28% from FY2013.

The accompanying notes are an integral part of these financial statements.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2015 AND 2014**

(Dollar amounts expressed in thousands)

- The Fund's total liabilities for FY2015 decreased by \$12,037 or 17.41% as compared to a decrease of \$21,847 or 24.01% in FY 2014. The Fund reported an estimated claimants' payable of \$21,891 in FY2015, which represent a decrease of \$4,092 or 15.75% compared to the prior year mainly due to a decline in the unemployment rate. FY2014, estimated claimants' payable was \$25,983 and decreased by \$17,967 or 40.88% from FY 2013.
- Due to D.C. Government represents unspent Reed Act and Unemployment Compensation Modernization funds; and interest and penalties assessed and collected from employers for late tax payments but not yet paid to the District. For FY 2015, the Fund's payables to D.C. Government decreased by \$6,721 or 20.86% compared to September 30, 2014 and decreased by \$3,232 or 9.12% in FY2014 as compared to September 30, 2013. The unspent Reed Act and Unemployment Compensation Modernization funds totaled \$15,246 in FY2015 compared to \$22,535 in FY 2014 and \$27,324 in FY2013. The Reed Act and Unemployment Compensation Modernization funds were received from the Federal government through the Reed Act and Modernization Accounts to pay for the Fund's administrative costs other than benefit payments.
- For FY2015, the Fund's current assets of \$369,594 were sufficient to cover current liabilities of \$57,111, a ratio of \$6.47 in assets for every dollar in liabilities. For FY 2014, the total current assets and current liabilities of the Fund were \$ 329,793 and \$69,148 respectively; a ratio of \$4.77 in assets for every dollar in liabilities.

Table 2- Summary of Revenues, Expenses, and Changes in Net Position

	FY2015	FY2014	Change	FY2013	Change
Operating Revenues:					
Employer Taxes	\$148,889	\$141,760	\$7,129	\$131,025	\$10,735
Governmental Contributions	14,561	9,766	4,795	32,790	(23,024)
Total Operating Revenues	<u>163,450</u>	<u>151,526</u>	<u>11,924</u>	<u>163,815</u>	<u>(12,289)</u>
Operating Expenses:					
Unemployment Benefits	119,267	160,403	(41,136)	255,645	(95,242)
Operating Income/(Loss)	44,183	(8,877)	53,060	(91,830)	82,953
Non-operating Revenues:					
Interest Revenue	7,655	7,326	329	7,691	(365)
Federal Contributions	-	20,244	(20,244)	96,161	(75,917)
Total Non-operating Revenues	<u>7,655</u>	<u>27,570</u>	<u>(19,915)</u>	<u>103,852</u>	<u>(76,282)</u>
Change in Net Position	51,838	18,693	33,145	12,022	6,671
Total Net Position - Beginning	260,645	241,952	18,693	229,930	12,022
Total Net Position - Ending	<u>\$312,483</u>	<u>\$260,645</u>	<u>\$51,838</u>	<u>\$241,952</u>	<u>\$18,693</u>

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2015 AND 2014**

(Dollar amounts expressed in thousands)

Revenues

Total operating revenues and non-operating revenues were \$171,105 in FY 2015 compared to \$179,096 for FY 2014 and \$267,667 for FY 2013.

In FY2015, the Fund's operating revenues totaled \$163,450 compared to \$151,526 in FY 2014 and \$163,815 in FY 2013. Operating revenues increased by \$11,924 or 7.87% from FY 2014 to FY 2015 mainly due to an increase in employer taxes and governmental contributions. However, it decreased by \$12,289 or 7.50% from FY2013 to FY 2014 due to a decrease in governmental contributions especially the Federal contributions. Federal and other governments reimburse the Fund 100% for benefits paid to their former employees. Operating revenue was derived primarily from employer taxes. Table 3 shows sources of operating revenues for the Fund in FY 2015, 2014 and 2013.

Table 3- Operating Revenue by Sources

Operating Revenues by Sources	FY2015	FY2014	Change	% change	FY2013	Change	% Change
Employer Taxes	\$148,889	\$141,760	\$7,129	5.03%	\$131,025	\$10,735	8.19%
Governmental Contributions:							
Other States' Contributions	2,890	4,483	(1,593)	(35.53%)	5,464	(981)	(17.95%)
Federal Government	6,606	(1,337)	7,943	594.01%	19,658	(20,995)	(106.80%)
D.C. Government	<u>5,065</u>	<u>6,620</u>	<u>(1,555)</u>	<u>(23.49%)</u>	<u>7,668</u>	<u>(1,048)</u>	<u>(13.67%)</u>
Total	<u>\$163,450</u>	<u>\$151,526</u>	<u>\$11,924</u>	<u>7.87%</u>	<u>\$163,815</u>	<u>\$(12,289)</u>	<u>(7.50%)</u>

Federal government contributions was \$6,606 for FY2015 compared to (\$1,337) in FY2014 mainly due to an increase in reimbursable revenue relating to eligible unemployed former civilian federal employees (UCFE) and ex-service members (UCX). In FY 2014, Federal government reimbursements revenue shows a balance of (\$1,337) primarily as a result of the difference between the amounts of unemployment benefit payments accrued in FY2013 and amounts actually collected in FY2014.

Interest income which is the Fund's primary sources of non-operating revenue decreased to \$7,655 in FY2015. Total non-operating revenue for FY2014 comprised of interest income of \$7,326 and Federal extended benefits of \$20,244. There were no Federal extended benefits in FY2015 which resulted in a net decrease of \$19,915 in non-operating revenue because the federal extended unemployment benefit programs expired in December, 2013.

Figures 1 and 2 show the percentage of revenues received from the Fund's different sources during FY2015 and FY2014. Taxes paid by employers were the largest source of revenue, which represented 87% total revenues in FY2015 compared to 79% and 49% of total revenues in FY2014 and FY2013 respectively.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2015 AND 2014**
(Dollar amounts expressed in thousands)

Figure 1: Total Revenues (Operating and Non-Operating) for the Year Ended September 30, 2015

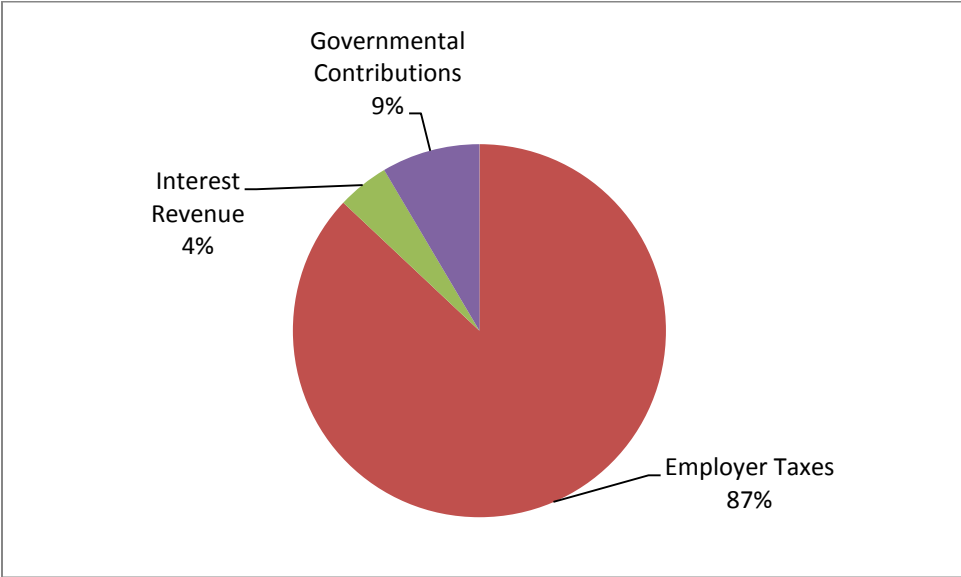
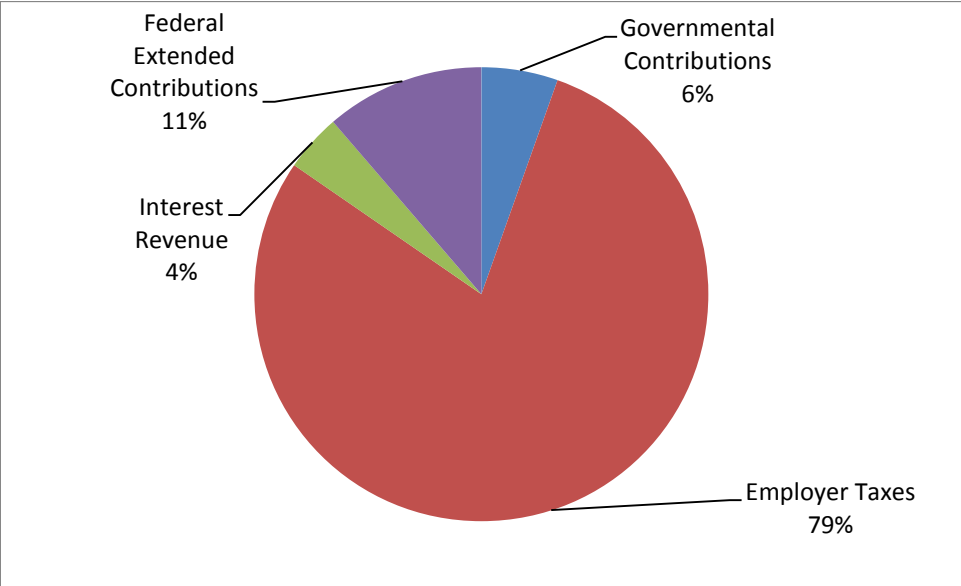


Figure 2: Total Revenues (Operating and Non-Operating) for the Year Ended September 30, 2014



**GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND**

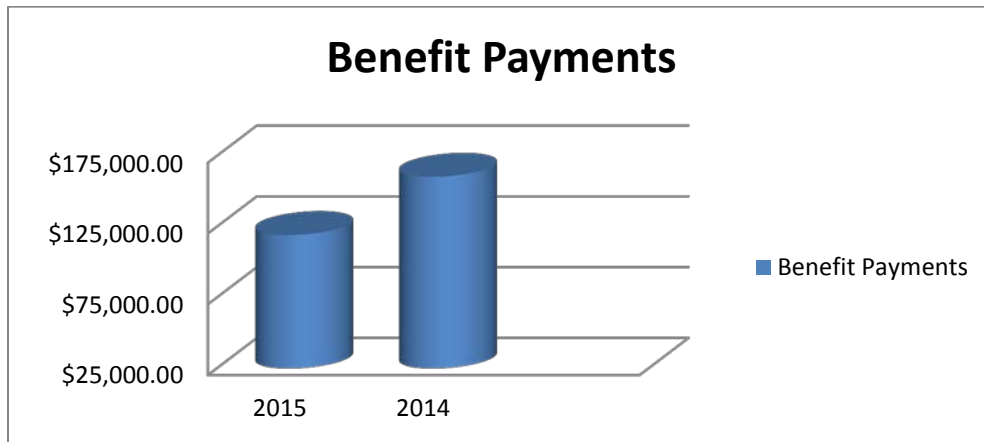
**MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2015 AND 2014**

(Dollar amounts expressed in thousands)

Expenses

The Fund's only operating expense is unemployment benefit payments. Figure 3 shows the comparison of benefits payments in FY2015 and FY2014.

Figure 3: Total Operating Expenses for the Fiscal Years Ended September 30, 2015 and September 30, 2014



The Fund's unemployment benefit payments decreased by \$41,136 or 25.65% in FY2015 compared to a decrease of \$95,242 or 37.26% in FY2014 and a decrease of \$89,268 or 25.88% in FY2013. The drop in benefit payments can be attributed to a decline in the overall average unemployment rate of approximately 0.2% and the reduction of federal extended benefits. Average unemployment rate within the District decreased to 7.4% as of September 30, 2015 from 7.6% as of September 30, 2014, representing 0.2% decrease.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2015 AND 2014**

(Dollar amounts expressed in thousands)

Table 4: District's unemployment rate by month for the year ended September 30, 2015

FY 2015 Average Unemployment Rate = 7.4%					
Current Year	Month	Labor Force	Number of Employed	Number of Unemployed	Unemployment Rate (%)
2014	Oct	382,573	352,938	29,635	7.7
2014	Nov	383,800	354,181	29,619	7.7
2014	Dec	384,679	355,108	29,571	7.7
2015	Jan	385,340	355,695	29,645	7.7
2015	Feb	385,435	355,333	30,102	7.8
2015	Mar	384,202	354,726	29,476	7.7
2015	Apr	385,229	356,199	29,030	7.5
2015	May	384,683	356,548	28,135	7.3
2015	Jun	384,445	357,512	26,933	7.0
2015	Jul	385,143	358,938	26,205	6.8
2015	Aug	386,612	360,452	26,160	6.8
2015	Sept	386,761	360,849	25,912	6.7

Source: U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2015 AND 2014**

(Dollar amounts expressed in thousands)

Table 5: District's unemployment rate by month for the year ended September 30, 2014

FY 2014 Average Unemployment Rate = 7.6%					
Current Year	Month	Labor Force	Number of Employed	Number of Unemployed	Unemployment Rate (%)
2013	Oct	367,410	338,125	29,285	8.0
2013	Nov	367,687	339,115	28,572	7.8
2013	Dec	368,127	340,191	27,936	7.6
2014	Jan	369,529	342,302	27,227	7.4
2014	Feb	370,823	343,396	27,427	7.4
2014	Mar	370,625	342,778	27,847	7.5
2014	Apr	369,596	341,811	27,785	7.5
2014	May	370,201	342,423	27,778	7.5
2014	Jun	370,838	343,556	27,282	7.4
2014	Jul	371,204	343,723	27,481	7.4
2014	Aug	370,581	342,195	28,386	7.7
2014	Sept	373,854	345,042	28,812	7.7

Source: U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics

ECONOMIC CONDITION AND OUTLOOK

In fiscal year (FY) 2015, the rate of increase in employment within the District increased significantly from the prior year, all in the private sector. The growth rate of resident employment also increased. Population growth continues to be a major factor in increasing the District's income, property, and sales tax bases. It is also one of the driving forces behind rising home values. In the last four years (between 2011 and 2015), the District's population has grown by more than 51,000 residents, an increase that has averaged more than 1,078 residents per month over that period of time.

Federal civilian employment accounts for 26% of all wage and salary jobs located in the District and 32% of the wages and salaries that are generated in the city. Approximately 25% of employed District residents work for the federal government. Furthermore, federal contracting accounts for additional jobs and income in the area, which also contribute to the District's tax base. With such a dominant federal presence, significant changes in federal spending can have a major impact on the District's economy and revenues.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2015 AND 2014**

(Dollar amounts expressed in thousands)

The following are summaries of recent trends in the District's economy:

- The U.S. Census Bureau estimated that there were 672,228 residents in the District of Columbia, as of July 1, 2015. This represents an increase of 12,392, or 1.8%, from the revised July 1, 2014 estimate of 659,836.
- Income has grown considerably in the District in recent years. From the second quarter of 2010 to the second quarter of 2015, Personal Income grew approximately 24.6% in the District as compared to 22.6% nationally.
- Job growth has picked up since last year. In the three months ended September 2015, there were 31,100 (or 1.7%) more wage and salary jobs located in the District than a year earlier.
- Total employment within the District increased to 765,300 as of September 2015 from the revised 754,900 as of September 2014. As the nation's capital, Washington, D.C. is the seat of the federal government and headquarters for most federal departments and agencies. The total September 2015 federal workforce in the Washington metropolitan area was 363,700; with approximately 198,300 federal employees located in Washington, D.C. and 165,400 additional federal employees who worked elsewhere in the Washington metropolitan area.
- The September 2015 unemployment rate was 6.7 percent (seasonally adjusted), a decrease from the revised 7.9% a year ago.
- Wages earned in the District of Columbia grew 2.7% in the September 2015 quarter compared to the same quarter a year ago. D.C. personal income was 4.2% higher

D.C. Unemployment Compensation Fund Net Position History

Historical data of the principal components of the Fund's net position are shown in Table 6.

Table 6: Unemployment Compensation Fund Net Position Components

	FY2015	FY2014	FY2013	FY2012	FY2011
Employer taxes / Government Contributions	\$ 163,450	\$ 171,770	\$ 259,976	\$ 344,115	\$ 386,825
Interest Earned	7,655	7,326	7,690	8,495	11,742
Benefits Paid	119,267	160,403	255,645	344,913	409,920
Net Position	312,483	260,645	241,952	229,930	221,944
Total wages	\$15,897,609	\$15,287,453	\$14,989,666	\$14,632,489	\$14,198,868

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2015 AND 2014**

(Dollar amounts expressed in thousands)

D.C. Unemployment Compensation Fund Outlook

The financial condition of the Unemployment Compensation Fund depends on three factors: state benefit outlays, employer taxes/government contributions, and taxable wages.

Table 7: Employer Taxes/Government Contributions and Benefits

Year	Employer Taxes/ Government Contributions	Benefit Payments	Surplus / (Deficit)
2011	\$ 386,824	\$ 409,920	\$ (23,096)
2012	344,115	344,913	(798)
2013	259,976	255,645	4,331
2014	171,770	160,403	11,367
2015	163,450	119,267	44,183

Table 8- Taxable Wages

Quarter Ending	FY2015	FY2014	FY2013
December 31	\$ 454,855	\$ 398,925	\$ 362,959
March 31	3,253,028	3,142,456	3,079,576
June 30	768,128	694,453	659,931
September 30	557,951	532,569	477,387

Source: DOES, Office of Labor Market Research and Information

Contact Information

This financial report is designed to provide a general overview of the Fund's finances. Questions concerning any information provided in this report, or requests for additional financial information, should be addressed to the Office of the Chief Financial Officer; Government of the District of Columbia; 1350 Pennsylvania Avenue, NW; Washington, D.C., 20004.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND
STATEMENTS OF NET POSITION
AS OF SEPTEMBER 30, 2015 AND 2014
(\$000s)**

	2015	2014
Current Assets:		
Cash Held With U.S. Treasury (note 2)	\$ 357,903	\$ 317,172
Accounts Receivable, Net (note 3)	10,896	11,766
Due From Federal Government (note 4)	795	855
Total Current Assets	369,594	329,793
Current Liabilities:		
Accounts Payable (note 5)	9,717	10,941
Claimants Payable (note 6)	21,891	25,983
Due To D.C. Government (note 7)	25,503	32,224
Total Current Liabilities	57,111	69,148
Net Position:		
Restricted for Unemployment Compensation Benefits	\$ 312,483	\$ 260,645

The accompanying notes are an integral part of these financial statements.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014
(\$000s)

	2015	2014
Operating Revenues:		
Employer Taxes	\$ 148,889	\$ 141,760
Governmental Contributions (note 8)	14,561	9,766
Total Operating Revenues	163,450	151,526
Operating Expenses:		
Unemployment Benefits	119,267	160,403
Total Operating Expenses	119,267	160,403
Operating Income/(Loss)	44,183	(8,877)
Non-operating Revenues:		
Federal Extended Benefit Contributions	-	20,244
Interest Revenues	7,655	7,326
Total Non-Operating Revenues	7,655	27,570
Change in Net Position	51,838	18,693
Total Net Position - Beginning	260,645	241,952
Total Net Position - Ending	\$ 312,483	\$ 260,645

The accompanying notes are an integral part of these financial statements.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014
(\$000s)**

	<u>2015</u>	<u>2014</u>
Cash Flows from Operating Activities:		
Cash Receipts from Employers	\$ 149,759	\$ 140,917
Cash Receipts from Governmental Contributions	14,621	19,121
Cash Payments for Other Liabilities	(7,945)	(3,880)
Cash Payments to Claimants	(123,359)	(178,370)
Net Cash Provided by (Used for) Operating Activities	<u>33,076</u>	<u>(22,212)</u>
Cash Flows from Investing Activities:		
Interest Income Received	7,655	7,326
Net Cash Provided by Investing Activities	<u>7,655</u>	<u>7,326</u>
Cash Flows from Noncapital Financing Activities:		
Federal Extended Benefit Contributions	-	20,244
	-	20,244
Net Increase in Cash	40,731	5,358
Cash, Beginning of Year	<u>317,172</u>	<u>311,814</u>
Cash, Ending of Year	<u>\$ 357,903</u>	<u>\$ 317,172</u>
<i>Reconciliation of Operating Income/(Loss) to Net Cash Provided by (Used for) Operating Activities:</i>		
Operating Income/(Loss)	\$ 44,183	\$ (8,877)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Decrease (increase) Receivables	870	(843)
Decrease (increase) Due from Federal Government	60	9,355
(Decrease) Increase Payables	(12,037)	(21,847)
Total Adjustments	<u>(11,538)</u>	<u>(13,335)</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ 33,076</u>	<u>\$ (22,212)</u>

The accompanying notes are an integral part of these financial statements.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015 AND 2014**

(Dollar amounts expressed in thousands)

**NOTE 1 NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES**

Nature of Activities: Pursuant to Federal law, the Government of the District of Columbia (the District) maintains an Unemployment Compensation Fund (the Fund). The Fund pays up to 26 weeks of regular statutory benefits to eligible unemployed former employees working in the District of Columbia or the Federal government. The Fund does not currently pay any additional weeks of benefits to eligible claimants who have exhausted their regular 26 weeks of benefits.

The Fund's Operating Revenues consist of employer taxes and reimbursements from governmental agencies for regular unemployment benefits paid to former employees.

Included in the Non-operating Revenues are the Emergency Unemployment Compensation benefit (EUC), which is a 100% federally funded program that provides benefits to individuals who have exhausted regular state benefits. The EUC program was created on September 30, 2008 and has been modified several times and extended until December 28, 2013. The extended benefits payments beyond the 26 weeks base period have to be authorized by the Federal Government. When this happens, the states are reimbursed by the Federal Government to cover the benefits. Also, included in the Non-operating Revenue is the interest generated by the Fund.

The Fund is administered by the Director of the District's Department of Employment Services. Substantially all administrative costs of the program are paid by Federal grants and Special purpose funds, which are recorded in the District's General Fund. These financial statements present only assets, liabilities, revenues, and expenses of the Fund and are not intended to present the financial position and results of operations of the Government of the District of Columbia taken as a whole.

Basis of Presentation: The Fund's financial statements are presented in accordance with U.S. generally accepted accounting principles (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB). The fund is considered an enterprise fund under GAAP for governmental entities.

Basis of Accounting: The accompanying financial statements are prepared on the accrual basis of accounting. Under this accounting method, all revenues are recognized in the fiscal year earned and expenses are recognized in the fiscal year incurred.

Measurement Focus: The financial statements are accounted for on a flow of economic resources measurement focus, wherein all assets and liabilities are included in the Statement of Net Position. The related Statement of Revenues, Expenses, and Changes in Net Position presents increases (revenues) and decreases (expenses) in net position.

Use of Estimates: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015 AND 2014**

(Dollar amounts expressed in thousands)

**NOTE 1 NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (continued)**

New Accounting Pronouncements:

The Fund plans to implement the following pronouncements by the required implementation date, i.e., fiscal year 2016.

- In February 2015, the Governmental Accounting Standard Board (GASB) issued Statement No. 72, *Fair Value Measurement and Application*. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. It also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, the Fund’s fiscal year 2016.
- In June, 2015, the Governmental Accounting Standard Board (GASB) issued Statement No. 76, *the Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, the Fund’s fiscal year 2016.

NOTE 2 CASH HELD WITH U.S. TREASURY

The Fund’s cash is held at the U.S. Department of Treasury (the Treasury) in a trust fund in the District’s name. The Federal Unemployment Trust Fund includes deposits from the unemployment insurance funds of all states. The Trust Fund is required by federal law to invest only in obligations guaranteed by the United States. Pursuant to the Social Security Act, the funds held at the Treasury earn interest quarterly based on the interest rates of the Treasury’s Certificates of Indebtedness. Interest earned for the years ended September 30, 2015 and 2014 was \$7,655 and \$7,326 respectively. As of September 30, 2015, cash held at the Treasury was \$357,903 compared to \$317,172 at September 30, 2014. The deposit with the Federal Unemployment Trust Fund is not categorized in accordance with the criteria under GASB Statement Number 40, *Deposit and Investment Risk Disclosures—an Amendment of GASB Statement No. 3*, because the Trust Fund is neither a deposit with a financial institution nor an investment.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015 AND 2014**
(Dollar amounts expressed in thousands)

NOTE 3 ACCOUNTS RECEIVABLE, NET

The Fund's accounts receivables consisted of the following as of September 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Employer Receivables	\$ 22,616	\$ 16,208
Claimant Receivables	17,335	17,021
Due from Other Funds/States	<u>1,496</u>	<u>3,514</u>
Total Receivables	41,447	36,743
Less: Allowance for Doubtful Accounts	<u>(30,551)</u>	<u>(24,977)</u>
Accounts Receivable, Net	<u><u>\$ 10,896</u></u>	<u><u>\$ 11,766</u></u>

Employer contributions are recognized as revenues in the accounting period in which they become due and measurable. Any contributions not received within the accounting period are recognized as Employer Receivables. Claimants receivable are benefits paid to claimants who ultimately are proven to be ineligible to receive all or a portion of those benefits. The Fund recognizes a receivable from these claimants when the benefits overpayment is identified. Due from other funds is the amount owed to the Fund from the District. *The percentage of ending accounts receivable method* is used to estimate and establish an allowance for doubtful accounts for the employers and claimants receivables.

NOTE 4 DUE FROM FEDERAL GOVERNMENT

As of September 30, 2015 the amount due from the federal government is \$795 compared to \$855 as of September 30, 2014. The balance of due from federal government represents benefit payments accrued for eligible unemployed former civilian federal employees (UCFE) and for eligible ex-military personnel (UCX).

NOTE 5 ACCOUNTS PAYABLE

As of September 30, 2015 and 2014, the Fund had payables to employers for taxes overpaid; to various states for unemployment benefits paid to former District employees; and to others for the Fund related activities.

	<u>2015</u>	<u>2014</u>
Employer Tax Refund Payable	\$ 7,207	\$ 4,879
Income Tax Payable	114	167
Due to Other States	2,390	2,823
Others	<u>6</u>	<u>3,072</u>
Total Accounts Payable	<u><u>\$ 9,717</u></u>	<u><u>\$ 10,941</u></u>

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015 AND 2014**

(Dollar amounts expressed in thousands)

NOTE 6 CLAIMANTS PAYABLE

Claimants Payables are estimated amounts due to claimants for the remaining periods of eligibility that are payable in the following period. The Claimant Payables as of September 30, 2015 and 2014 were \$21,891 and \$25,983 respectively.

NOTE 7 DUE TO D.C. GOVERNMENT

The amounts reported as “Due to D.C. Government” consisted of Reed Act and Unemployment Compensation Modernization funds obligated for administrative costs, and interest and penalties assessed and collected from employers for late tax payments but not yet paid to the District. The amounts payable to the District as of September 30, 2015 and 2014 are \$25,503 and \$32,224 respectively.

NOTE 8 GOVERNMENTAL CONTRIBUTIONS

Governmental contributions consisted of the following for the years ended September 30, 2015 and 2014.

	2015	2014
Other States Contribution	\$ 2,890	\$ 4,483
Federal Government	6,606	(1,337)
District Government	5,065	6,620
Total Governmental Contributions	\$ 14,561	\$ 9,766

NOTE 9 COMMITMENTS AND CONTINGENCIES

As of September 30, 2015 and September 30, 2014, there were no matters of litigation involving the Unemployment Compensation Trust Fund which would materially affect the Unemployment Trust Fund’s financial position should any court decisions on pending matters not be favorable to the Fund.



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**REPORT THE INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

The Mayor and Council of Government of District of Columbia
Inspector General of Government of District of Columbia

We have audited, 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, the financial statements of Government of District of Columbia Unemployment Compensation Fund (the Fund) as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated January 20, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Washington, DC.
January 20, 2016

SB & Company, LLC