

DISTRICT OF COLUMBIA OFFICE OF THE INSPECTOR GENERAL

OIG Project No. 18-1-05BH

January 2018



UNEMPLOYMENT COMPENSATION FUND:

FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND
ANALYSIS (WITH REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS)
FOR FISCAL YEARS ENDED SEPTEMBER 30, 2017 AND 2016



Guiding Principles

*Workforce Engagement * Stakeholders Engagement * Process-oriented * Innovation
* Accountability * Professionalism * Objectivity and Independence * Communication * Collaboration
* Diversity * Measurement * Continuous Improvement*

Mission

Our mission 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 programs and operations; and
- recommend and track the implementation of corrective actions.

Vision

Our vision is to be a world-class Office of the Inspector General that is customer-focused, and sets the standard for oversight excellence!

Core Values

Excellence * Integrity * Respect * Creativity * Ownership
* Transparency * Empowerment * Courage * Passion
* Leadership



GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



January 31, 2018

The Honorable Muriel Bowser
Mayor of the District of Columbia
Mayor's Correspondence Unit
1350 Pennsylvania Avenue, N.W., Suite 316
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 504
Washington, D.C. 20004

Dear Mayor Bowser and Chairman Mendelson:

Enclosed is the final report entitled *Unemployment Compensation Fund: Financial Statements for Fiscal Years Ended September 30, 2017, and 2016* (OIG No. 18-1-05BH). SB & Company, LLC (SB&C) conducted the audit and 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 2017.

On January 8, 2018, SB&C issued its opinion on the financial statements and concluded that the financial statements present fairly in all material respects, in conformity with accounting principles generally accepted in the United States of America. SB&C identified no significant deficiencies or material weaknesses in internal control over financial reporting.

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

Sincerely,

A handwritten signature in blue ink, appearing to read "D. Lucas".

Daniel W. Lucas
Inspector General

DWL/fg

Enclosure

cc: See Distribution List

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GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND
An Enterprise Fund of the District of Columbia

FINANCIAL STATEMENTS

For the Years Ended September 30, 2017 and 2016

(Together with Reports of the Independent Public Accountants)

GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND
FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2017 AND 2016
(Dollar amounts expressed in thousands)

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Government of the District of Columbia Unemployment Compensation Fund (the Fund), an enterprise fund of the Government of the District of Columbia, as of and for the years ended September 30, 2017 and 2016, 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 audits. We conducted our audits 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 audits 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 controls 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, 2017 and 2016, and the change in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



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Emphasis of Matter

The financial statements present fairly only the Fund and do not purport to, and do not present fairly the financial position of the Government of the District of Columbia as of September 30, 2017 and 2016, or the change 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 4, 2018 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 controls/ 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 Unemployment Compensation Fund's internal control over financial reporting and compliance.

Washington, DC.
January 8, 2018

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2017 AND 2016**

(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, 2017 and 2016, compared to the fiscal year ended September 30, 2015. This discussion has been prepared by management and should be read in conjunction with the financial statements and the accompanying notes to the basic financial statements. 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 (DOES). 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, and net position. Net position is the difference between assets plus deferred outflows of resources and liabilities. The net position is comprised of the restricted 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 events 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.

FINANCIAL HIGHLIGHTS

- The District's average unemployment rate for the fiscal year ended September 30, 2017 was 6.0%, which is a 0.2% decrease compared to 6.2% at the end of FY 2016 and a 1.4% decrease compared to 7.4% at the end of FY 2015.
- As of September 30, 2017, the Fund's assets exceeded its liabilities by \$397,252. The Fund reported an increase in net position of \$33,015 or 9.06% in FY 2017 as compared to \$51,754 or 16.56% increase in FY 2016.

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

	FY2017	FY2016	Change	FY2015	Change
Assets					
Cash Held with U.S. Treasury	\$442,730	\$406,596	\$36,134	\$357,903	\$48,693
Receivables (net)	11,748	10,926	822	11,691	(765)
Total Assets	454,478	417,522	36,956	369,594	47,928
Liabilities					
Payables	35,170	31,390	3,780	31,608	(218)
Due to D.C. Government	22,056	21,895	161	25,503	(3,608)
Total Liabilities	57,226	53,285	3,941	57,111	(3,826)
Net Position					
Restricted for Unemployment Compensation Benefits	<u>\$397,252</u>	<u>\$364,237</u>	<u>\$33,015</u>	<u>\$312,483</u>	<u>\$ 51,754</u>

- The Fund's largest asset is the cash held with U.S. Treasury, which represented 97.42 % of the Fund's total assets. FY 2017 cash balance increased by \$36,134 or 8.89% primarily due to the cash receipts from governmental contributions and employer taxes exceeding the unemployment benefit payments. FY 2016 cash balance increased by \$48,693 or 13.61% from FY 2015.
- Receivables, net of allowance for doubtful accounts, increased by \$822 or 7.53% in FY 2017 compared to FY 2016 mainly due to the increase in receivables relating to employers and from other states. The Fund's receivables consist of amounts due from the Federal government, other states for unemployment benefits paid, employers for unpaid taxes and claimants for unemployment benefit overpayments. The increase in the due from federal government is as a result of increased claims from eligible Unemployed former Civilian Federal Employees (UCFE) and ex-service members (UCX). In FY 2016, there was a net decrease in receivables of \$765 or 6.54% from FY 2015.
- The Fund's total liabilities for FY 2017 increased by \$3,941 or 7.40% as compared to a decrease of \$3,826 or 6.70% in FY 2016. The Fund reported an estimated claimants' payable of \$23,947 in FY 2017, which represents an increase of \$3,709 or 18.33% compared to the prior fiscal year, mainly due to the increase of the maximum weekly benefit amount and the number of claims filed. In FY 2016, estimated claimants' payable was \$20,238 and decreased by \$1,653 or 7.55% from FY 2015.

- Due to D.C. Government represents unspent Reed Act, Unemployment Compensation Modernization funds, interest and penalties assessed, payments made by the District on behalf of the UI Trust Fund and collected from employers for late tax payments but not yet paid to the District. For FY 2017, the Fund's payables to D.C. Government increased by \$161 or 0.73% compared to September 30, 2016 due to an increase in the payments made by the District on behalf of the UI Trust Fund and decreased by \$3,608 or 14.15% in FY 2016 as compared to September 30, 2015. The unspent Reed Act and Unemployment Compensation Modernization funds totaled \$10,430 in FY 2017 compared to \$11,078 in FY 2016 and \$15,246 in FY 2015. 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 FY 2017, the Fund's current assets of \$454,478 were sufficient to cover current liabilities of \$57,226 a ratio of \$7.94 in assets for every dollar in liabilities. For FY 2016, the total current assets and current liabilities of the Fund were \$417,522 and \$53,285 respectively; a ratio of \$7.84 in assets for every dollar in liabilities.

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

Revenues

	FY 2017	FY 2016	Change	FY 2015	Change
Operating Revenues:					
Employer Taxes	\$143,728	\$145,887	(\$2,159)	\$148,889	(\$3,002)
Governmental Contributions	23,776	12,028	11,748.00	14,561	(2,533)
Total Operating Revenues	<u>\$167,504</u>	<u>\$157,915</u>	<u>\$9,589</u>	<u>\$163,450</u>	<u>(5,535)</u>
Expenses:					
Unemployment Benefits	\$143,942	\$114,633	\$29,309	\$119,267	(\$4,634)
Operating Profit/(Loss)	\$23,562	\$43,282	(\$19,720)	\$44,183	(\$901)
Non-operating Revenues:					
Interest Revenue	\$9,453	\$8,472	\$981	\$7,655	\$817
Total Non-operating Revenues	<u>\$9,453</u>	<u>\$8,472</u>	<u>\$981</u>	<u>\$7,655</u>	<u>817</u>
Change in Net Position	\$33,015	\$51,754	(\$18,739)	\$51,838	(\$84)
Total Net Position - Beginning	<u>364,237</u>	<u>312,483</u>	<u>\$51,754</u>	<u>260,645</u>	<u>\$51,838</u>
Total Net Position - Ending	<u>\$397,252</u>	<u>\$364,237</u>	<u>\$33,015</u>	<u>\$312,483</u>	<u>\$51,754</u>

Total operating revenues and non-operating revenues were \$176,957 in FY 2017 compared to \$166,387 in FY 2016 and \$171,105 in FY 2015.

In FY 2017, the Fund's operating revenues totaled \$167,504 compared to \$157,915 in FY 2016 and \$163,450 in FY 2015. Operating revenues increased by \$9,589 or 6.07% from FY 2016 to FY 2017 due to an increase in governmental contributions. However, it decreased by \$5,535 or 3.39% from FY 2015 to FY 2016 due to a decrease in employer taxes and governmental 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 2017, 2016 and 2015.

Table 3- Operating Revenue by Sources

Operating Revenues by Sources	FY2017	FY2016	Change	% change	FY2015	Change	% Change
Employer Taxes	\$143,728	\$145,887	(\$2,159)	(1.48%)	\$148,889	(\$3,002)	(2.02%)
Governmental Contributions:							
Other States' Contributions	4,764	2,855	\$1,909	66.87%	2,890	(\$35)	(1.21%)
Federal Government	13,686	4,665	\$9,021	193.38%	6,606	(\$1,941)	(29.38%)
D.C. Government	<u>5,326</u>	<u>4,508</u>	<u>\$818</u>	<u>18.15%</u>	<u>5,065</u>	<u>(\$557)</u>	<u>(11.00%)</u>
Total	<u>\$167,504</u>	<u>\$157,915</u>	<u>\$9,589</u>	<u>6.07%</u>	<u>\$163,450</u>	<u>(\$5,535)</u>	<u>(3.39%)</u>

Federal government contributions were \$13,686 for FY 2017 compared to \$4,665 in FY 2016. This increase is mainly due to an increase in reimbursable revenue relating to eligible unemployed former Civilian Federal Employees (UCFE) and ex-service members (UCX). In FY 2016, Federal government reimbursements revenue shows a balance of \$4,665 compared to \$6,606 in FY 2015. This decrease is due to a decline in reimbursable revenue relating to eligible Unemployed former Civilian Federal Employees (UCFE) and ex-service members (UCX).

Interest income which is the Fund's primary sources of non-operating revenue increased to \$9,453 in FY 2017 from \$8,472 in FY 2016 resulting in an increase of \$981 or 11.57%; this is due to an increase of \$36,134 or 8.89% in the cash held with U.S. Treasury from \$406,596 to \$442,730 in FY 2016 and FY 2017 respectively. The non-operating revenue consists of interest income.

Figures 1 and 2 show the percentage of revenues received from the Fund's different sources during FY 2017 and FY 2016. Taxes paid by employers were the largest source of revenue, which represented 81% of total revenues in FY2017 compared to 88% and 87% of total revenues in FY 2016 and FY 2015 respectively.

Figure 1: Total Revenues (Operating and Non-Operating) for the Year Ended September 30, 2017

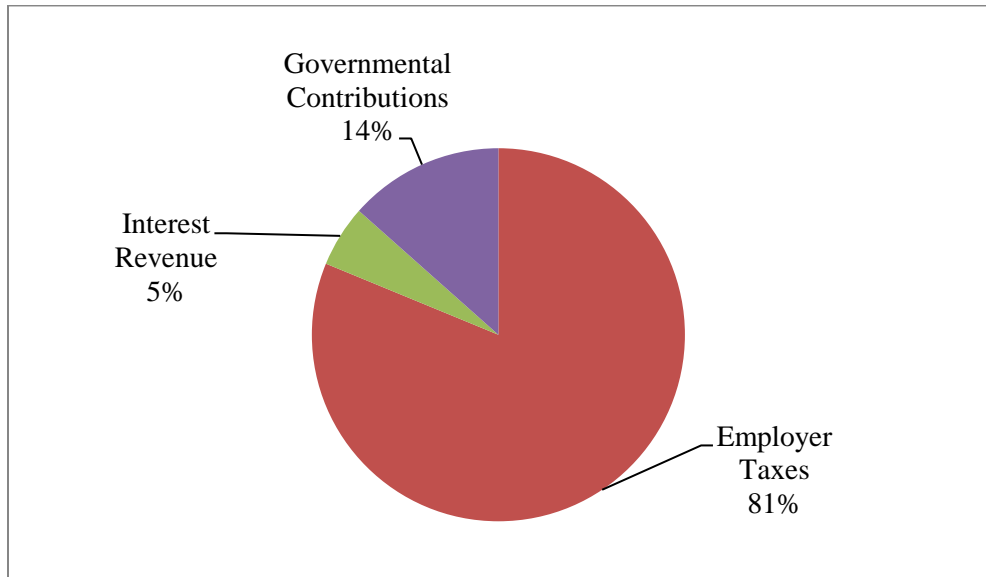
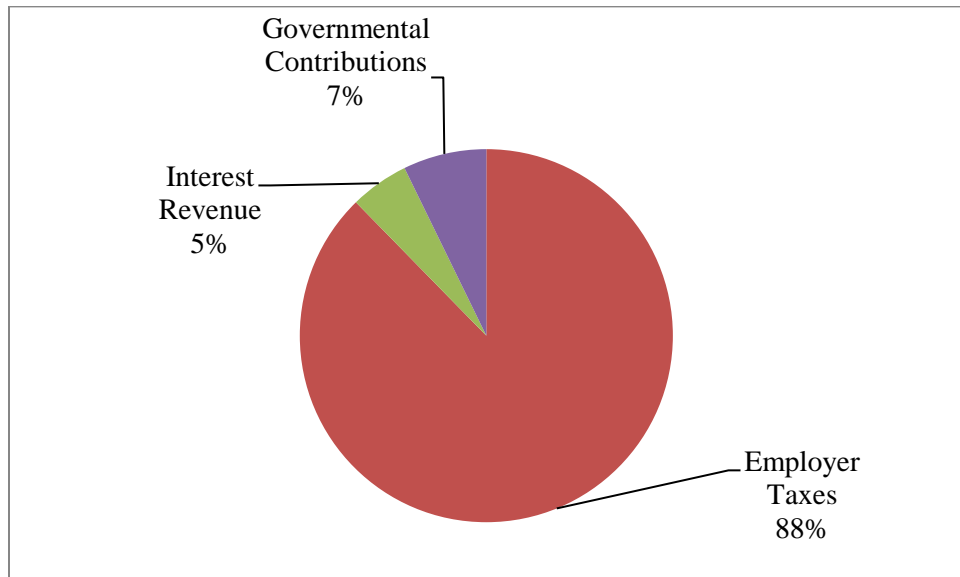


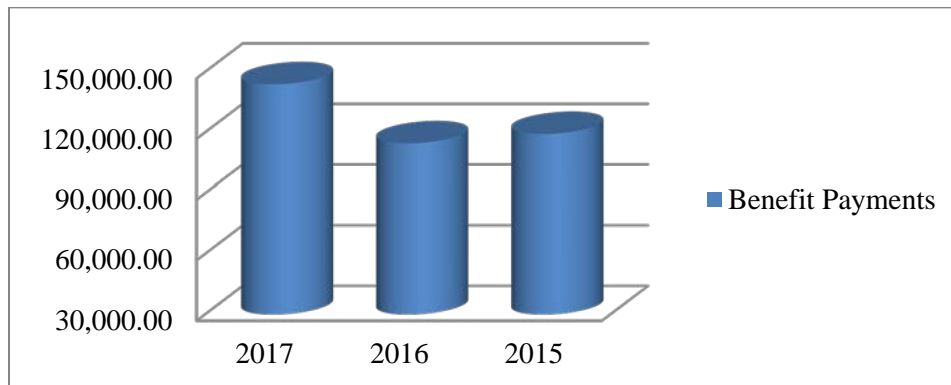
Figure 2: Total Revenues (Operating and Non-Operating) for the Year Ended September 30, 2016



Expenses

The Fund's only operating expense is unemployment benefit payments. Figure 3 shows the comparison of benefits payments in FY 2017, FY 2016 and FY 2015.

Figure 3: Total Operating Expenses for the Fiscal Years Ended September 30, 2017, September 30, 2016 and 2015



The Fund's unemployment benefit payments increased by \$29,309 or 25.57% in FY 2017 compared to a decrease of \$4,634 or 3.89% in FY 2016 and a decrease of \$41,136 or 25.65% in FY 2015 due to an increase of the unemployment insurance maximum weekly benefit amount from \$359 to \$425 in FY 2017 as well as increase in claims filed. Average unemployment rate within the District decreased to 6.0% as of September 30, 2017 from 6.2% as of September 30, 2016, representing a 0.2% decrease.

Table 4: District's unemployment rate by month for the year ended September 30, 2017

FY 2017 Average Unemployment Rate = 6.0%					
Current Year	Month	Labor Force	Number of Employed	Number of Unemployed	Unemployment Rate (%)
2016	Oct	392,862	369,920	22,942	5.8
2016	Nov	393,325	370,653	22,672	5.8
2016	Dec	393,752	371,329	22,423	5.7
2017	Jan	395,599	373,223	22,376	5.7
2017	Feb	397,009	374,369	22,640	5.7
2017	Mar	398,131	375,103	23,028	5.8
2017	Apr	399,420	375,734	23,686	5.9
2017	May	401,812	377,542	24,270	6.0
2017	Jun	403,294	378,508	24,786	6.1
2017	Jul	403,242	377,536	25,706	6.4
2017	Aug	402,330	376,618	25,712	6.4
2017	Sep	402,005	375,774	26,231	6.5

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

Table 5: District's unemployment rate by month for the year ended September 30, 2016

FY 2016 Average Unemployment Rate = 6.2%					
Current Year	Month	Labor Force	Number of Employed	Number of Unemployed	Unemployment Rate (%)
2015	Oct	388,740	363,360	25,380	6.5
2015	Nov	389,354	364,166	25,188	6.5
2015	Dec	390,101	365,131	24,970	6.4
2016	Jan	390,965	366,250	24,715	6.3
2016	Feb	391,786	367,337	24,449	6.2
2016	Mar	392,344	368,137	24,207	6.2
2016	Apr	392,540	368,509	24,031	6.1
2016	May	392,432	368,511	23,921	6.1
2016	Jun	392,181	368,349	23,832	6.1
2016	Jul	392,010	368,310	23,700	6.0
2016	Aug	392,080	368,582	23,498	6.0
2016	Sep	392,410	369,178	23,232	5.9

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

ECONOMIC CONDITION AND OUTLOOK

In fiscal year 2017, employment within the District continued to increase with almost all of the net additional jobs in the private sector. Resident employment also increased. Population growth continues to be a major factor in increasing the District's income, property, and sales tax bases, and is one of the driving forces behind rising home values. In the last five years (between 2012 and 2017), the District's population has grown by about 58,000 residents, an increase that has averaged about 970 residents per month over that period of time. The District's private sector has grown along with sustained growth in the national economy. This has contributed to the growth in the District's tax base.

Federal civilian employment accounts for 24.90% of all wage and salary jobs located in the District and 31.30% of the amount of wages and salaries that are generated in the city. Approximately 13.00% 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.

For fiscal year 2017, Congress waived some of the limits in approving appropriation bills that otherwise would have been subject to reduction, known as sequestration, from the previously expected level of federal spending. These sequestration limits are scheduled to return during fiscal year 2018 and continue through fiscal year 2023 unless Congress once again lifts these limits. Spending policies related to reducing federal debt remains an unresolved issue.

Federal government expansion cushioned the District and metropolitan area economies from the worst effects of the severe national recession that lasted from 2007 to 2009. The federal government will no doubt continue to anchor the District's economy, but given the ongoing federal fiscal policy uncertainties, the federal government can no longer be counted on to be a source of significant growth.

Highlights: The District's Economy

Highlights of recent trends in the District's economy, including rising job growth, increases in population and a strong housing market, are presented below:

- In the three months ended September 2017, there were 13,133 (1.70%) more wage and salary jobs located in the District than a year earlier. Of particular note, there were 900 (0.50%) fewer federal government jobs in September than there were a year earlier, while the private sector jobs increased by 13,500 (2.50%).
- District resident employment in the three months ended September 2017 was 5,036 (1.40%) more than a year earlier.
- The September unemployment rate was 6.50% (seasonally adjusted), an increase from 5.90% a year ago.
- Wages earned in the District of Columbia grew 2.10% in the quarter ending September 30, 2017, compared to the same quarter a year ago. D.C. personal income was 2.20% higher on September 30, 2017 compared to the same time one year ago.

- Home sales and prices increased in both single-family homes and condominiums. Single family sales for the three-month period ended September 2017 were up 2.50% from a year ago; however, the average selling price was down by 0.10%. Condominium sales were up 0.80%, while the average price was 2.20% lower. The value of all home sale settled contracts for the three-month period ended September 2017 was 1.00% more than a year ago.
- Commercial office effective rents edged up over the past year. Leased space in September 2017 was down 0.40% from a year ago, while the vacancy rate (including sublets) fell over the past year from 11.60% to 11.30%.
- Hotel room-days sold for the three months ended September 2017 were up 3.10% from the prior year, and hotel room revenues were up by 2.00%.

Income Trends

Income has grown considerably in the District in recent years. From the third quarter of 2012 to the third quarter of calendar year 2017, personal income grew approximately 23.30% in the District as compared to 16.30% nationally.

The distribution of income in the District differs from that of the nation as a whole, with larger portions of District residents being in the higher and lower income brackets and a significantly smaller portion being within the middle income levels. Median household income data is not yet available for 2017; however, for 2016 the District’s median household income of \$75,506 was 31.00% above the U.S. average. The Census Bureau estimates that 18.60% of the District’s population was below the poverty line in 2016 as compared to 14.00% for all of the U.S.

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

	FY2017	FY2016	FY2015	FY2014	FY2013
Employer taxes / Government Contributions	\$167,504	\$157,915	\$163,450	\$171,770	\$259,976
Interest Earned	9,453	8,472	7,655	7,326	7,690
Benefits Paid	143,942	114,633	119,267	160,403	255,645
Net Position	397,252	364,237	312,483	260,645	241,952
Total wages*	**	\$17,057,945	\$15,897,609	\$15,287,453	\$14,989,666

*Source: DOES, Office of Labor Market Research and Information.

**Data not yet available

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)
2013	259,976	255,645	4,331
2014	171,770	160,403	11,367
2015	163,450	119,267	44,183
2016	157,915	114,633	43,282
2017	167,504	143,942	23,562

Table 8- Taxable Wages

Quarter Ending	FY2017	FY2016	FY2015
December 31	\$485,042	\$509,111	\$454,855
March 31	3,503,127	3,364,553	3,253,028
June 30	762,610	765,516	768,128
September 30	*	570,646	557,951

Source: DOES, Office of Labor Market Research and Information

*Data not yet available

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, 2017 AND 2016
(Dollar amounts expressed in thousands)**

	<u>2017</u>	<u>2016</u>
Current Assets:		
Cash Held With U.S. Treasury (note 2)	\$442,730	\$406,596
Accounts Receivable, Net (note 3)	10,193	9,907
Due From D.C. Government (note 4)	430	419
Due From Federal Government (note 5)	1,125	600
Total Current Assets	<u>454,478</u>	<u>417,522</u>
Current Liabilities:		
Accounts Payable (note 6)	11,223	11,152
Claimants Payable (note 7)	23,947	20,238
Due To D.C. Government (note 8)	22,056	21,895
Total Current Liabilities	<u>57,226</u>	<u>53,285</u>
Net Position:		
Restricted for Unemployment Compensation Benefits	<u><u>\$397,252</u></u>	<u><u>\$364,237</u></u>

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, 2017 AND 2016
(Dollar amounts expressed in thousands)**

	2017	2016
Operating Revenues:		
Employer Taxes	\$143,728	\$145,887
Governmental Contributions (note 9)	23,776	12,028
Total Operating Revenues	167,504	157,915
Operating Expenses:		
Unemployment Benefits	143,942	114,633
Total Operating Expenses	143,942	114,633
Operating Income	23,562	43,282
Non-operating Revenues:		
Interest Revenues	9,453	8,472
Total Non-Operating Revenues	9,453	8,472
Change in Net Position	33,015	51,754
Total Net Position – Beginning	364,237	312,483
Total Net Position - Ending	\$397,252	\$364,237

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, 2017 AND 2016
(Dollar amounts expressed in thousands)**

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities:		
Cash Receipts from Employers	\$143,442	\$146,457
Cash Receipts from Governmental Contributions	23,240	12,223
Cash Payments for Other Liabilities	232	(2,173)
Cash Payments to Claimants	(140,233)	(116,286)
Net Cash Provided by Operating Activities	<u>26,681</u>	<u>40,221</u>
Cash Flows from Investing Activities:		
Interest Income Received	9,453	8,472
Net Cash Provided by Investing Activities	<u>9,453</u>	<u>8,472</u>
Net Increase in Cash	36,134	48,693
Cash, Beginning of Year	<u>406,596</u>	<u>357,903</u>
Cash, Ending of Year	<u>\$442,730</u>	<u>\$406,596</u>
<i>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</i>		
Operating Income	<u>\$23,562</u>	<u>\$43,282</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities		
Decrease (increase) Receivables	(297)	570
Decrease (increase) Due from Federal Government	(525)	195
(Decrease) Increase Payables	3,941	(3,826)
Total Adjustments	<u>3,119</u>	<u>(3,061)</u>
Net Cash Provided by Operating Activities	<u>\$26,681</u>	<u>\$40,221</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, 2017 AND 2016**

(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 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 are presenting 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, 2017 AND 2016**

(Dollar amounts expressed in thousands)

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, 2017 and 2016 was \$9,453 and \$8,472 respectively. As of September 30, 2017, cash held at the Treasury was \$442,730 compared to \$406,596 as of September 30, 2016. The Federal Unemployment Trust Fund held at the Federal Reserve Bank 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.

NOTE 3 ACCOUNTS RECEIVABLE, NET

The Fund's accounts receivables consisted of the following as of September 30, 2017 and 2016:

	2017	2016
Employer Receivables	\$21,726	\$19,040
Claimant Receivables	9,815	13,748
Due from Other States	1,405	736
Total Receivables	32,946	33,524
Less: Allowance for Doubtful Accounts	(22,753)	(23,617)
Accounts Receivable, Net	\$ 10,193	\$ 9,907

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 are ultimately 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 states is the amount owed to the Fund from other states for unemployment benefits paid on their behalf. *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 D.C. GOVERNMENT

Due from D.C. Government is the amount owed to the Fund from the District for unemployment benefits paid on its behalf to former employees. As of September 2017 and 2016, the amount due from the District was \$430 and \$419 respectively.

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

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

(Dollar amounts expressed in thousands)

NOTE 5 DUE FROM FEDERAL GOVERNMENT

As of September 30, 2017, the amount due from the federal government is \$1,125 compared to \$600 as of September 30, 2016. The balance due from federal government represents benefit payments accrued for eligible Unemployed former Civilian Federal Employees (UCFE) and for eligible ex-military personnel (UCX).

NOTE 6 ACCOUNTS PAYABLE

As of September 30, 2017 and 2016, 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.

	2017	2016
Employer Tax Refund Payable	\$8,821	\$8,294
Due to Other States	2,231	2,615
Income Tax Payable	114	107
Others	57	136
Total Accounts Payable	\$11,223	\$11,152

NOTE 7 CLAIMANTS PAYABLE

Claimants Payables are estimated amounts due to claimants for the remaining periods of eligibility for claims filed as of year-end and are payable in the next fiscal year. The Claimant Payables as of September 30, 2017 and 2016, were \$23,947 and \$20,238 respectively.

NOTE 8 DUE TO D.C. GOVERNMENT

The amounts reported as “Due to D.C. Government” consisted of Reed Act, Unemployment Compensation Modernization funds obligated for administrative costs, payments made by the District on behalf of the UI Trust Fund, administrative assessment, 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, 2017 and 2016, were \$22,056 and \$21,895 respectively.

	2017	2016
District payments on behalf of		
UI Trust Fund	\$11,389	\$10,587
U C Modernization Funds	9,334	9,581
REED ACT	1,096	1,498
Admin asses, int & penalties	237	229
Total Due to D.C. Government	\$22,056	\$21,895

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

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

(Dollar amounts expressed in thousands)

NOTE 9 GOVERNMENTAL CONTRIBUTIONS

Governmental contributions consisted of the following for the years ended September 30, 2017 and 2016.

	<u>2017</u>	<u>2016</u>
Federal Government	\$13,686	\$4,665
District Government	5,326	4,508
Other States Contribution	4,764	2,855
Total Governmental Contributions	<u>\$23,776</u>	<u>\$12,028</u>

NOTE 10 COMMITMENTS AND CONTINGENCIES

As of September 30, 2017 and September 30, 2016, 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.

NOTE 11 SIGNIFICANT EVENTS

Effective October 1, 2016, Unemployment Insurance (UI) Maximum Weekly Benefit Amount (MWBA) increased from \$359 to \$425 per week.



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**REPORT ON INTERNAL CONTROLS 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 the Government of the District of Columbia
Inspector General 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 the District of Columbia Unemployment Compensation Fund (the Fund), as of and for the year ended September 30, 2017, 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 4, 2018.

Internal Controls over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund's internal controls over financial reporting (internal controls) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal controls. 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 controls, 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 controls 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 controls 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 controls over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.



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Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal controls and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity’s internal controls 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 controls and compliance. Accordingly, this communication is not suitable for any other purpose.

Washington, DC.
January 8, 2018

A handwritten signature in black ink that reads "SB & Company, LLC". The signature is written in a cursive, flowing style.