

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE INSPECTOR GENERAL**

DISTRICT OF COLUMBIA

UNEMPLOYMENT COMPENSATION FUND

**Financial Statements and
Management's Discussion and Analysis
(with Independent Auditors' Report Thereon)
Years Ended September 30, 2011, and 2010**



**CHARLES J. WILLOUGHBY
INSPECTOR GENERAL**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



August 31, 2012

The Honorable Vincent C. Gray
Mayor
District of Columbia
Mayor's Correspondence Unit, Suite 316
1350 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

The Honorable Phil Mendelson
Chairman
Council of the District of Columbia
John A. Wilson Building, Suite 402
1350 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

Dear Mayor Gray and Chairman Mendelson:

As part of our contract for the audit of the District of Columbia's general purpose financial statements for fiscal year (FY) 2011, KPMG LLP (KPMG) submitted the enclosed final report on the District of Columbia Unemployment Compensation Fund (Fund) Financial Statements for years ended September 30, 2011 and 2010 (OIG No. 12-1-18BH).

KPMG opined that the financial statements present fairly, in all material respects, the financial position and cash flows of the Fund, for the year ended September 30, 2011, and the changes in financial position for the year then ended in conformity with United States of America generally accepted accounting principles. In accordance with *Government Accounting Standards*, KPMG also issued its report on consideration of the Fund's internal control over financial reporting which identified no deficiencies in internal control considered to be material weaknesses as defined as follows; a material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of an entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Mayor Gray and Chairman Mendelson
FYs 2011 and 2010 Unemployment Compensation Fund
Financial Statements, Management's Discussion and
Analysis (with Independent Auditors' Report Thereon)
OIG No. 12-1-18BH – Final Report
August 31, 2012
Page 2 of 4

If you have questions or need additional information, please contact Ronald W. King,
Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,


Charles J. Willoughby
Inspector General

Enclosures

CJW/ws

cc: See Distribution List

DISTRIBUTION:

Mr. Allen Y. Lew, City Administrator, District of Columbia (via email)
Mr. Victor L. Hoskins, Deputy Mayor for Planning and Economic Development, District of Columbia
The Honorable Muriel Bowser, Chairperson, Committee on Government Operations, Council
of the District of Columbia (via email)
Mr. Brian Flowers, General Counsel to the Mayor (via email)
Mr. Christopher Murphy, Chief of Staff, Office of the Mayor (via email)
Ms. Janene Jackson, Director, Office of Policy and Legislative Affairs (via email)
Mr. Pedro Ribeiro, Director, Office of Communications (via email)
Mr. Eric Goulet, Budget Director, Mayor's Office of Budget and Finance
Ms. Nyasha Smith, Secretary to the Council (1 copy and via email)
Mr. Irvin B. Nathan, Attorney General for the District of Columbia (via email)
Dr. Natwar M. Gandhi, Chief Financial Officer (1 copy and via email)
Mr. William DiVello, Executive Director, Office of Integrity and Oversight, Office of the
Chief Financial Officer (via email)
Ms. Yolanda Branche, D.C. Auditor
Mr. Phillip Lattimore, Director and Chief Risk Officer, Office of Risk Management (via email)
Ms. Jeanette M. Franzel, Managing Director, FMA, GAO, Attention: Norma J. Samuel (via email)
The Honorable Eleanor Holmes Norton, D.C. Delegate, House of Representatives,
Attention: Bradley Truding (via email)
The Honorable Darrell Issa, Chairman, House Committee on Oversight and Government
Reform, Attention: Howie Denis (via email)
The Honorable Elijah Cummings, Ranking Member, House Committee on Oversight and
Government Reform, Attention: Yvette Cravins (via email)
The Honorable Trey Gowdy, Chairman, House Subcommittee on Health Care, the District of
Columbia, the Census and the National Archives, Attention: Anna Bartlett (via email)
The Honorable Danny Davis, Ranking Member, House Subcommittee on Health Care, the District
of Columbia, the Census, and the National Archives, Attention: Yul Edwards (via email)
The Honorable Joseph Lieberman, Chairman, Senate Committee on Homeland Security and
Governmental Affairs, Attention: Holly Idelson (via email)
The Honorable Susan Collins, Ranking Member, Senate Committee on Homeland Security
and Governmental Affairs, Attention: Daniel Jenkins (via email)
The Honorable Daniel K. Akaka, Chairman, Senate Subcommittee on Oversight of
Government Management, the Federal Workforce, and the District of Columbia,
Attention: Aaron Woolf (via email)
The Honorable Ron Johnson, Ranking Member, Senate Subcommittee on Oversight of
Government Management, the Federal Workforce, and the District of Columbia
The Honorable Harold Rogers, Chairman, House Committee on Appropriations,
Attention: Kaitlyn Eisner-Poor (via email)

Mayor Gray and Chairman Mendelson
FYs 2011 and 2010 Unemployment Compensation Fund
Financial Statements, Management's Discussion and
Analysis (with Independent Auditors' Report Thereon)
OIG No. 12-1-18BH – Final Report
August 31, 2012
Page 4 of 4

The Honorable Norman D. Dicks, Ranking Member, House Committee on Appropriations,
Attention: Laura Hogshead (via email)

The Honorable Jo Ann Emerson, Chairman, House Subcommittee on Financial Services and
General Government, Attention: John Martens (via email)

The Honorable José E. Serrano, Ranking Member, House Subcommittee on Financial
Services and General Government, Attention: Laura Hogshead (via email)

The Honorable Daniel K. Inouye, Chairman, Senate Committee on Appropriations,
Attention: Charles Houy

The Honorable Thad Cochran, Ranking Member, Senate Committee on Appropriations

The Honorable Richard Durbin, Chairman, Senate Subcommittee on Financial Services and
General Government, Attention: Marianne Upton (via email)

The Honorable Jerry Moran, Ranking Member, Senate Subcommittee on Financial Services
and General Government, Attention: Dale Cabaniss (via email)

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

FINANCIAL STATEMENTS

September 30, 2011 and 2010

(With Independent Auditors' Report Thereon)

GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND
FINANCIAL STATEMENTS
SEPTEMBER 30, 2011 and 2010

TABLE OF CONTENTS

Independent Auditors' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Statements of Net Assets	10
Statements of Revenues, Expenses, and Changes in Net Assets	11
Statements of Cash Flows.....	12
Notes to Financial Statements.....	13
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statement Performed in Accordance with Government Auditing Standards.....	16



KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

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

We have audited the accompanying statements of net assets of the Government of the District of Columbia's Unemployment Compensation Fund (the Fund) as of September 30, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets and statements of cash flows (here in after referred to as financial statements) for the years then ended. These financial statements are the responsibility of the Fund's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As, discussed in Note 1, the financial statements of the Fund are intended to present the financial position and the changes in financial position and cash flows of the Fund. They do not purport to, and do not, present fairly the financial position of the Government of the District of Columbia as of September 30, 2011 and 2010, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Fund as of September 30, 2011 and 2010, and the respective changes in financial position and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 27, 2012 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



The Management's Discussion and Analysis on pages 3 through 9 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

July 27, 2012

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

SEPTEMBER 30, 2011 AND 2010

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 year ended September 30, 2011. This discussion has been prepared by management and should be read in conjunction with the financial statements and note disclosures. The financial statements, disclosures and 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 a federal grant, which is recorded in the District's General Fund.

Financial Statement Presentation

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

■ **Statement of Net Assets**

The Statement of Net Assets represents the Fund's assets, liabilities, and net assets. Net assets are the difference between assets and liabilities. Over time, increases or decreases in the Fund's net assets may serve as a useful indicator of whether the Fund's financial position is improving or deteriorating.

■ **Statement of Revenue, Expenses, and Changes in Net Assets**

The Statement of Revenue, Expenses, and Changes in Net Assets represent information showing how the Fund's net assets have changed during the fiscal year. All changes in net assets are reported as soon as the event underlying the change occurs without respect to the timing of the related cash flows. Accordingly, the revenues and expenses reported in this statement for certain items will result in cash flow in future periods (e.g. accounts receivable and accrued liabilities).

■ **Statement of Cash Flow**

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

Financial Highlight

The District's average unemployment rate for the fiscal year ended September 30, 2011 was 10.0%, which was an 8% decrease compared to 10.9% in fiscal year (FY) 2010. The Fund's net assets decreased by \$11,352 in FY 2011 as compared to a \$71,478 decrease in FY 2010.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

SEPTEMBER 30, 2011 AND 2010

Overall Financial Analysis

Summary of Net Assets (in \$000)

	<u>2011</u>	<u>2010</u>	<u>Change</u>	<u>2009</u>	<u>Change</u>
Assets					
Cash Held with U.S. Treasury	\$313,190	\$322,826	(\$9,636)	\$366,403	(\$43,577)
Receivables	17,511	23,646	(6,135)	28,470	(4,824)
Total Assets	<u>\$330,701</u>	<u>\$346,472</u>	<u>(\$15,771)</u>	<u>\$394,873</u>	<u>(\$48,401)</u>
Liabilities					
Payables	\$75,656	\$79,531	(\$3,875)	\$70,329	\$9,202
Due to D.C. Government	33,101	33,645	(544)	19,770	13,875
Total Liabilities	<u>\$108,757</u>	<u>\$113,176</u>	<u>(\$4,419)</u>	<u>\$90,099</u>	<u>\$23,077</u>
Net Assets					
Restricted for Unemployment Compensation Benefits	<u>\$221,944</u>	<u>\$233,296</u>	<u>(\$11,352)</u>	<u>\$304,774</u>	<u>(\$71,478)</u>

- The Fund's largest asset is the cash held with U.S. Treasury, which represented 94.70% of the Fund's total assets. The cash balance decreased by \$9,636 as a result of unemployment benefits payments exceeding the cash receipts from employer taxes and governmental agencies. The FY 2010 cash balance decreased by \$43,577 from FY 2009.
- Receivables, net of allowance for doubtful accounts, decreased by \$6,135. The Fund's receivables consist of amounts owed from the Federal government and other states for unemployment benefits paid, Employers for unpaid taxes, and claimants for unemployment benefit overpayments. In FY 2010, there was a net decrease in receivables of \$4,824 from FY 2009.
- The Fund's total liabilities for FY 2011 decreased by \$4,419 or 3.90% as compared to an increase of \$23,077 or 25.61% in FY 2010. Amounts due to claimants for unemployment benefits comprise a major portion of the payables. For FY 2011, Claimants Payable has been estimated at \$61,141 was decreased by \$5,511 from prior year as a result of the claimants exhausting their regular unemployment benefits. For FY 2010, claimants' payable estimated at \$66,952 was increased by \$ 5,924 from FY 2009.
- Due to D.C. Government represents amounts owed to the District for unemployment benefits and employer tax refunds paid on behalf of the Fund. The Fund's payables to DC Government decreased by \$544 or 1.62% as compared to FY 2010. In FY 2010, there was an increase of \$13,875 or 70% from FY 2009 in payables to the DC Government. At September 30, 2011, the unspent Reed Funds totaled \$32,244 compared to \$35,781 at September 30, 2010. The Reed fund is received from the federal government through Reed Act Account to be used for paying the trust fund administrative costs other than benefit payments.
- For FY 2011, the Fund's current assets of \$330,701 were sufficient to cover current liabilities of \$108,757, a ratio of \$3.04 dollars in assets for every dollar in liabilities. For FY 2010, the total current assets and current liabilities of the fund were \$ 346,472 and \$113,176 respectively; a ratio of \$3.06 in assets for every dollar in liabilities.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

SEPTEMBER 30, 2011 AND 2010

Summary of Revenues, Expenses, and Changes in Net Assets (in \$000)

	<u>2011</u>	<u>2010</u>	<u>Change</u>	<u>2009</u>	<u>Change</u>
Revenues:					
Employer Taxes	\$128,876	\$129,470	(\$594)	\$94,622	\$34,848
Governmental Contributions	<u>35,329</u>	<u>36,998</u>	<u>(1,669)</u>	<u>36,985</u>	<u>13</u>
Total Revenue	<u>\$164,205</u>	<u>\$166,468</u>	<u>(\$2,263)</u>	<u>\$131,607</u>	<u>\$34,861</u>
Expenses:					
Unemployment Benefits	<u>\$409,920</u>	<u>\$480,976</u>	<u>(\$71,056)</u>	<u>\$370,775</u>	<u>\$110,201</u>
Operating Loss	(\$245,715)	(\$314,508)	\$68,793	(\$239,168)	(\$75,340)
Non-operating Revenues:					
Interest Revenue	\$11,743	\$13,532	(\$1,789)	\$18,417	(\$4,885)
Federal Contributions	<u>222,620</u>	<u>229,498</u>	<u>(6,878)</u>	<u>151,243</u>	<u>78,255</u>
Total Non-operating Revenues	<u>\$234,36</u>	<u>\$243,030</u>	<u>(\$8,667)</u>	<u>\$169,660</u>	<u>\$73,370</u>
Change in Net Assets	(\$11,352)	(\$71,478)	\$60,126	(\$69,508)	(\$1,970)
Total Net Assets - Beginning	<u>233,296</u>	<u>304,774</u>	<u>(71,478)</u>	<u>374,282</u>	<u>(69,508)</u>
Total Net Assets - Ending	<u>\$221,944</u>	<u>\$233,296</u>	<u>(\$11,352)</u>	<u>\$304,774</u>	<u>(\$71,478)</u>

Revenues

In fiscal year (FY) 2011, the Fund's operating revenue totaled \$164,205 compared to \$166,468 in FY 2010. In FY 2009 the operating revenue was \$131,607. Operating revenues decreased by 1.36% from FY 2010 to FY 2011 and increased by 37% from FY 2009 to FY 2010. This is due to decrease/increase in governmental contributions as the number of former employees filed for unemployment benefits changes. Federal and other governments reimburse the Fund 100% for benefits paid to their former employees. Operating revenue came primarily from employer taxes.

Revenues from all sources (operating and non-operating) totaled \$398,568 in FY 2011, \$409,498 for FY 2010 compared to \$301,267 in FY 2009. The following schedule shows sources of operating revenue for the Fund in FY 2011 and 2010:

<u>Revenue Source</u>	<u>FY 2011</u>	<u>FY 2010</u>
■ Employer Taxes.....	\$ 128,876	\$ 129,470
■ Other states' contributions	\$ 6,702	\$ 8,797
■ Federal government Reimbursement.....	\$ 12,302	\$ 9,233
■ Reimbursement from the District government.....	\$ 16,325	\$ 18,968

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

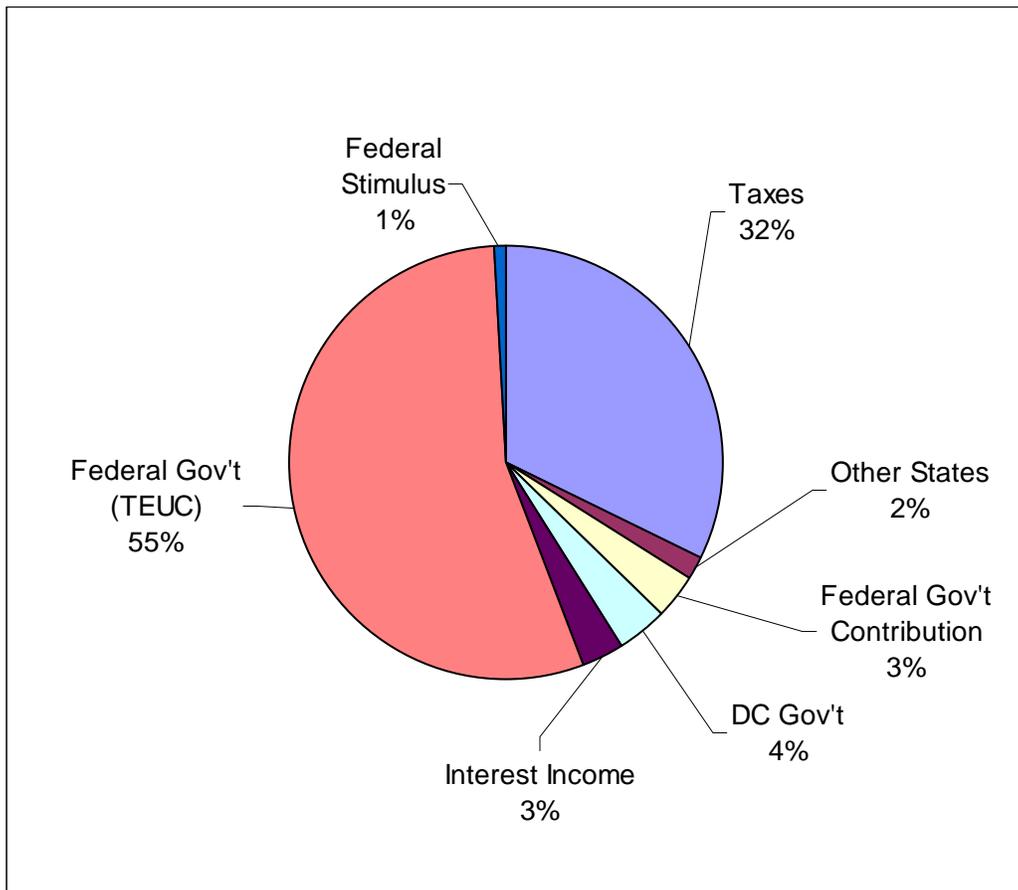
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

SEPTEMBER 30, 2011 AND 2010

In FY 2011, the Fund's sources of non-operating revenue consist of interest income of \$11,743, extended benefits of \$219,087 and Federal stimulus contribution of \$3,533. The non-operating revenue for FY 2010 was consisted of interest income of \$ 13,532, extended benefits of \$198,445 and federal stimulus contribution of \$31,053. Total non-operating revenue in FY 2011 was \$234,363 compared to \$243,030 in FY 2010. The net decrease in non-operating revenue is due to the fact that the Federal stimulus contribution lapsed, except for those claimants who were already in the program.

Figures 1 and 2 show the percentage of revenues received during FY 2011 and 2010 from the Fund's different sources. In both Fiscal periods, the largest source of revenue was from the Federal government for temporary and extended unemployment compensation (TEUC) which represents 55% in 2011 and 48% in 2010 of total revenues.

Figure 1: Total Revenues (Operating and Non-Operating) for the year ended September 30, 2011

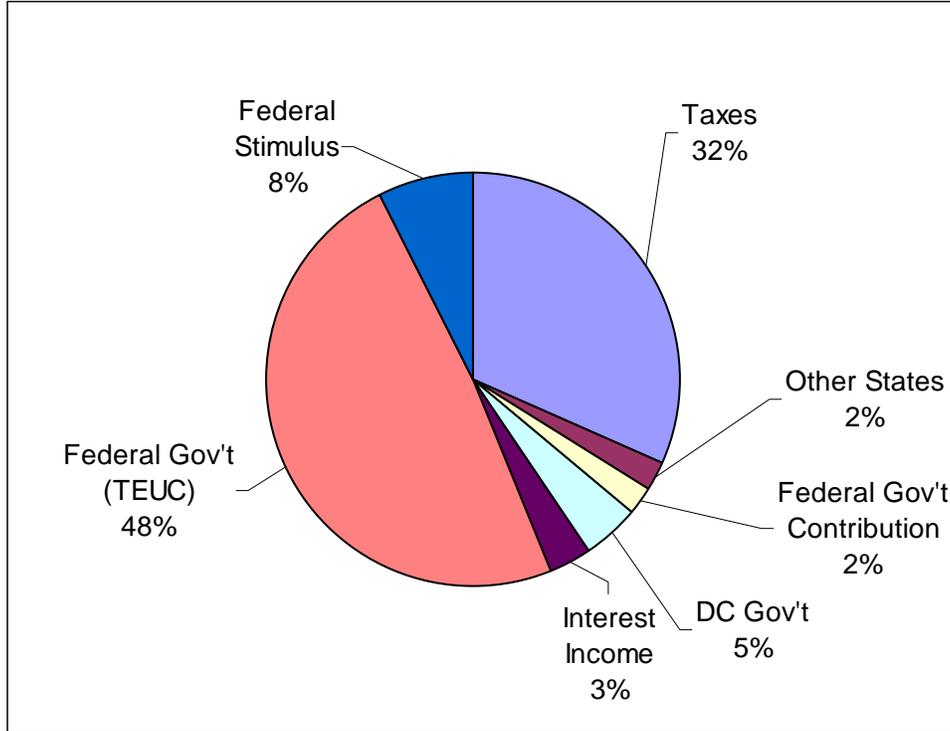


**GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

SEPTEMBER 30, 2011 AND 2010

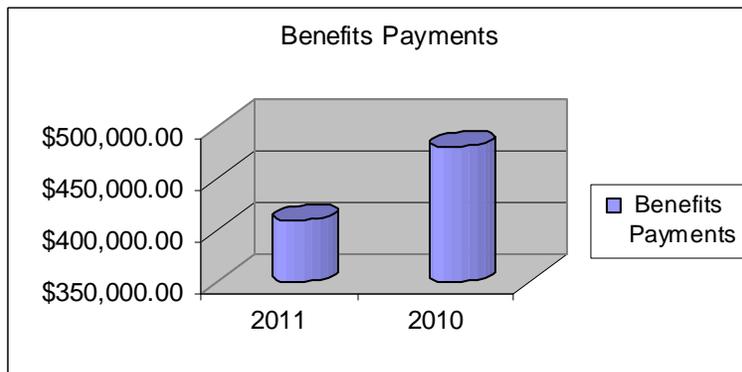
Figure 2: Total Revenues (Operating and Non-Operating) for the year ended September 30, 2010.



Expenses

The Fund's only operating expense is unemployment benefit payments. Figure 3 shows the comparison of benefits payments in FY 2011 and FY 2010.

Figure 3: Total Operating Expenses for the years ended September 30, 2011 and 2010



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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

SEPTEMBER 30, 2011

In FY 2011, the Fund's unemployment benefits (payments) decreased by \$71,056 or 14.77% as compared to an increase of \$110,201 or 29.72% in FY 2010. The drop in benefits payments can be attributed to a decline in the overall average unemployment rate of approximately 1%. However, the monthly increase of unemployment rate (claims) from April through September was attributed to layoffs in DC. The Federal Additional (FAC) was 100% federally funded; it did not have any impact on DC's UI Trust fund. But, there were fewer claimants who filed during the period of which FAC was active but were paid in FY 2011.

Figure 4: Shows District's unemployment rate by Month for the Year Ended September 30, 2011

FY 2011 Average Unemployment Rate					10%
Current Year	Month	Labor Force	Number of Employed	Number of Unemployed	Unemployment Rate (%)
2010	Oct	331,197	299,071	32,126	9.7
2010	Nov	331,030	299,052	31,978	9.7
2010	Dec	331,150	299,272	31,878	9.6
2011	Jan	332,378	300,571	31,807	9.6
2011	Feb	334,289	302,678	31,611	9.5
2011	Mar	334,366	302,566	31,800	9.5
2011	Apr	334,694	302,547	32,147	9.6
2011	May	334,641	301,770	32,871	9.8
2011	Jun	332,680	298,171	34,509	10.4
2011	Jul	331,143	295,315	35,828	10.8
2011	Aug	330,368	293,710	36,658	11.1
2011	Sept	332,237	295,171	37,066	11.2

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

SEPTEMBER 30, 2011

Figure 5: Shows District's unemployment rate by Month for the Year Ended September 30, 2010

Fiscal year 2010 Average Unemployment Rate					10.9%
Current Year	Month	Labor Force	Employment	Number of Unemployed	Unemployment Rate (%)
2009	Oct	332,080	294,280	37,800	11.4
2009	Nov	332,565	293,829	38,736	11.6
2009	Dec	332,938	293,412	39,526	11.9
2010	Jan	335,581	295,402	40,179	12.0
2010	Feb	336,407	296,433	39,974	11.9
2010	Mar	336,966	298,070	38,896	11.5
2010	Apr	337,423	300,374	37,049	11.0
2010	May	338,132	303,023	35,109	10.4
2010	Jun	337,139	303,559	33,580	10.0
2010	Jul	334,872	301,884	32,988	9.9
2010	Aug	331,846	298,995	32,851	9.9
2010	Sep	331,038	298,573	32,465	9.8

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
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011
(With Comparative Totals for 2010)
(in thousands)

	2011	2010
Current Assets:		
Cash Held With U.S. Treasury (note 2)	\$313,190	\$322,826
Account Receivable, Net (note 3)	17,014	18,141
Due From Federal Government (note 4)	497	5,505
Total Current Assets	\$330,701	\$346,472
 Current Liabilities:		
Accounts Payables (note 5)	\$14,515	\$12,579
Claimants Payable (note 6)	61,141	66,952
Due To D.C. Government (note 7)	33,101	33,645
Total Current Liabilities	\$108,757	\$113,176
 Net Assets:		
Restricted for Unemployment Compensation Benefits	\$221,944	\$233,296

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

GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2011
(With Comparative Totals for 2010)
(in thousands)

	<u>2011</u>	<u>2010</u>
Operating Revenues:		
Employer Taxes	\$128,876	\$129,470
Other States' Contributions	6,702	8,797
Federal Reimbursements	12,302	9,233
District Reimbursements	<u>16,325</u>	<u>18,968</u>
Total Operating Revenues	<u>\$164,205</u>	<u>\$166,468</u>
Operating Expenses:		
Unemployment Benefits	<u>\$409,920</u>	<u>\$480,976</u>
Total Operating Expenses	<u>\$409,920</u>	<u>\$480,976</u>
Operating Loss	(\$245,715)	(\$314,508)
Non-operating Revenues:		
Interest Revenues	\$11,743	\$13,532
Federal Extended Benefit Contributions	219,087	198,445
Federal Stimulus Contributions	<u>3,533</u>	<u>31,053</u>
Total Non-Operating Revenues	<u>\$234,363</u>	<u>\$243,030</u>
Change in Net Assets	(\$11,352)	(\$71,478)
Total Net Assets - Beginning	<u>\$233,296</u>	<u>\$304,774</u>
Total Net Assets - Ending	<u><u>\$221,944</u></u>	<u><u>\$233,296</u></u>

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

GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2011
(With Comparative Totals for 2010)
(in thousands)

	2011	2010
Cash Flows from Operating Activities:		
Cash Receipts from Employers	\$128,876	\$123,399
Cash Receipts from Federal Government	12,302	9,233
Cash Receipts from District Government	16,325	15,482
Cash Receipts from Other States	6,702	9,800
Cash Payments to Claimants	(408,204)	(475,173)
Net Cash Used in Operating Activities	(\$243,999)	(\$317,259)
 Cash Flows from Investing Activities:		
Interest Income Received	\$11,743	\$13,532
Net Cash Provided by Investing Activities	\$11,743	\$13,532
 Cash Flows from Noncapital Financing Activities:		
Federal Extended Benefit Contributions	\$219,087	\$211,823
Federal Stimulus Contributions	3,533	31,053
Federal Government Reed Act Contributions	0	18,422
District Reed Fund Payments	0	(1,148)
Net Cash Provided by Noncapital Financing Activities	\$222,620	\$260,150
 Net Decrease in Cash Equivalents	(9,636)	(43,577)
 Cash, Beginning of Year	322,826	366,403
 Cash, Ending of Year	\$313,190	\$322,826
 Reconciliation of Operating Loss to Net Cash Used in Operating Activities:		
Operating Loss	\$(245,715)	\$(314,508)
Increase in Assets:		
Receivables	6,135	(8,554)
Increase in Liabilities:		
Payables	(4,419)	5,803
Net Cash Used in Operating Activities	(\$243,999)	(\$317,259)

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

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

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

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 of the District of Columbia or the Federal government. The Fund also pays additional weeks of benefits to eligible claimants who have exhausted their regular 26 weeks of benefits.

The Fund Operating Revenue consists of employer taxes and reimbursements from governmental agencies for regular unemployment benefits paid to former employees.

Included in the Non-operating Revenue is 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 June 30, 2008 and has been modified several times. 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 a Federal grant, which is 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).

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

The Fund has elected, as allowed in paragraph 7 of GASB *Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, not to follow Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principle Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued subsequent to November 30, 1989. The Fund applies all applicable FASB pronouncements issued on or prior to November 30, 1989 in accounting for and reporting its operations, unless these pronouncements conflict with GASB pronouncements.

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

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

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 Assets. The related Statement of Revenue, Expenses, and Changes in Net Assets present increases (revenues) and decreases (expenses) in net assets.

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 at 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.

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. 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 in 2011 and 2010 was \$11,743 and \$13,532, respectively. At September 30, 2011, cash held at the Treasury was \$313,190 compared to \$322,826 at September 30, 2010.

NOTE 3 ACCOUNTS RECEIVABLE, NET

The Fund's accounts receivable consists of the following at September 30, 2011 and 2010:

	2011	2010
Employer Receivables	\$ 10,504	\$ 13,904
Claimant Receivables	13,803	14,151
Due from Other Funds/States	4,216	2,135
Total Receivables	28,523	30,190
Less: Allowance for Doubtful Accounts	(11,509)	(12,049)
Accounts Receivable, Net	\$ 17,014	\$ 18,141

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 at September 30, 2011 is the amount owed to the Fund from the District. Aging of the receivables is used to estimate and establish an allowance for doubtful accounts. Employer tax receivables over two years old are recorded as Allowance for Doubtful Accounts as well as claimants' receivable over 450 days old.

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

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 4 DUE FROM FEDERAL GOVERNMENT

At September 30, 2011 the amount due from the federal government for extended benefits is \$497 as compared to \$5,505 in FY 2010.

NOTE 5 ACCOUNTS PAYABLE

At September 30, 2011 and 2010, the Fund had payables to employers for taxes overpaid, various States for unemployment benefits paid to former District employees, and others for Fund related activities.

	2011	2010
Employer Tax Refund Payable	\$3,666	\$3,131
Income Tax Payable	1,737	3,792
Due to Other States	6,127	3,873
Others	2,985	1,783
Total Accounts Payable	\$14,515	\$12,579

NOTE 6 CLAIMANTS PAYABLE

Claimants Payables are estimated amounts due to claimants for the remaining periods of eligibility that are payable the following FY. The Claimant Payables as of September 30, 2011 and 2010 were \$61,141 and \$66,952, respectively.

NOTE 7 DUE TO D.C. GOVERNMENT

The amounts reported as “Due to DC Government” consist of Reed Act 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, 2011 and 2010 are \$33,101 and \$33,645, respectively.

NOTE 8 COMMITMENTS AND CONTINGENCIES

At September 30, 2011, there were no matters of litigation involving the Unemployment Compensation Trust Fund of which would materially affect the Unemployment Trust Fund financial position should any court decisions on pending matters not be favorable to the Fund.



KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

**Independent Auditors' Report 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 the Council of the Government of the District of Columbia
Inspector General of the Government of the District of Columbia:

We have audited the financial statements of the Government of the District of Columbia's Unemployment Compensation Fund (the Fund) as of and for the years ended September 30, 2011 and 2010, and have issued our report thereon dated July 27, 2012. 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.

Internal Control over Financial Reporting

Management of the Fund is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Fund's internal control over financial reporting as a basis for designing our auditing procedures 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 control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

A deficiency in internal control over financial reporting 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 combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Fund's financial statements will not be prevented, or detected and corrected on a timely basis.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of 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*.

We noted certain matters that we reported to management of the Fund in a separate letter dated July 27, 2012.

This report is intended solely for the information and use of management, the Mayor, Members of the Council and the Inspector General of the Government of the District of Columbia, and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

July 27, 2012