

DISTRICT OF COLUMBIA OFFICE OF THE INSPECTOR GENERAL

OIG Project No. 17-1-05BH

February 2017



UNEMPLOYMENT COMPENSATION FUND:

**FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND
ANALYSIS (WITH REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS)
FOR FISCAL YEARS ENDED SEPTEMBER 30, 2016 AND 2015**



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



February 13, 2017

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 the Fiscal Years Ended September 30, 2016, and 2015* (OIG No. 17-1-05BH). SB & Company, LLC (SBC) 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 (FY) 2016.

On December 22, 2016, SBC 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. SBC 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 Toayoa D. Aldridge, Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,


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, 2016 and 2015

(Together with Reports of Independent Public Accountants)

GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND
FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015
(Dollar amounts expressed in thousands)

TABLE OF CONTENTS

Report of Independent Public Accountants	1
Management’s Discussion and Analysis.....	3
Basic Financial Statements:	
Statements of Net Position.....	14
Statements of Revenue, Expenses, and Change in Net Position.....	15
Statements of Cash Flows.....	16
Notes to the Financial Statements	17
Report of Independent Public Accountants on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	22



SB & COMPANY, LLC
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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 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, 2016 and 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 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 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.



SB & COMPANY, LLC
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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, 2016 and 2015, 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.

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 District of Columbia as of September 30, 2016 and 2015, the change in its financial position or, 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 December 22, 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.
December 22, 2016

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

(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, 2016 and 2015 compared to the fiscal year ended September 30, 2014. 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 (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) statements of net position, (b) statements of revenue, expenses, and change in net position, and (c) statements of cash flows.

■ Statements of Net Position

The Statements of Net Position present 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.

■ Statements of Revenue, Expenses, and Change in Net Position

The Statements of Revenues, Expenses, and Change in Net Position present the Fund’s revenue and expenses. The difference between revenue and expenses is reported as “change 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 flows in future fiscal periods (for example, accrued revenues and accrued expenditures).

■ Statements of Cash Flows

The Statements of Cash Flows present 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 (continued)

(Dollar amounts expressed in thousands)

FINANCIAL HIGHLIGHTS

- The District's average unemployment rate for the fiscal year ended September 30, 2016 was 6.3%, which was a 1.1% decrease compared to 7.4% at the end of FY 2015, and a 1.3% decrease compared to 7.6% at the end of FY 2014
- As of September 30, 2016, the Fund's assets exceeded its liabilities by \$364,237. The Fund reported an increase in net position of \$51,754 or 16.56% in FY 2016, as compared to \$51,838 or a 19.89% increase in FY 2015 and \$18,693 or a 7.73% increase in FY 2014.

OVERALL FINANCIAL ANALYSIS

The 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

	FY2016	FY2015	Change	FY2014	Change
Assets					
Cash Held With U.S. Treasury	\$406,596	\$357,903	\$48,693	\$317,172	\$40,731
Receivables net	10,926	11,691	(765)	12,621	(930)
Total Assets	<u>417,522</u>	<u>369,594</u>	<u>47,928</u>	<u>329,793</u>	<u>39,801</u>
Liabilities					
Payables	31,390	31,608	(218)	36,924	(5,316)
Due To D.C. Government	21,895	25,503	(3,608)	32,224	(6,721)
Total Liabilities	<u>53,285</u>	<u>57,111</u>	<u>(3,826)</u>	<u>69,148</u>	<u>(12,037)</u>
Net Position					
Restricted For Unemployment Compensation Benefits	<u>\$364,237</u>	<u>\$312,483</u>	<u>\$51,754</u>	<u>\$260,645</u>	<u>\$51,838</u>

- The Fund's largest asset is the cash held with U.S. Treasury, which represents 97.38 % of the Fund's total assets. The FY 2016 cash balance increased by \$48,693 or 13.61%, primarily due to the cash receipts from employer taxes and governmental contributions exceeding the unemployment benefit payments. The FY 2015 cash balance increased by \$40,731 or 12.84% from FY 2014.
- Receivables, net of allowance for doubtful accounts, decreased by \$765 or 6.54% in FY 2016, mainly due to the decrease in receivables relating to claimants and employers. 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 FY 2015, there was a net decrease in receivables of \$930 or 7.37% from FY 2014.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

(Dollar amounts expressed in thousands)

OVERALL FINANCIAL ANALYSIS (continued)

- The Fund's total liabilities for FY 2016 decreased by \$3,826 or 6.70%, as compared to a decrease of \$12,037 or 17.41% in FY 2015. The Fund reported an estimated claimants' payable of \$20,238 in FY 2016, which represents a decrease of \$1,653 or 7.55%, compared to the prior fiscal year, mainly due to the decline in the unemployment rate. In FY 2015, estimated claimants' payable was \$21,891 and decreased by \$4,092 or 15.75% from FY 2014.

- Due to D.C. Government represents unspent Reed Act, Unemployment Compensation Modernization funds, interest and penalties assessed and collected from employers for late tax payments but not yet paid to the District. For FY 2016, the Fund's payables to D.C. Government decreased by \$3,608 or 14.15%, compared to September 30, 2015 and decreased by \$6,721 or 20.86% in FY 2015, as compared to September 30, 2014. The unspent Reed Act and Unemployment Compensation Modernization funds totaled \$11,078 in FY 2016, compared to \$15,246 in FY 2015 and \$22,535 in FY 2014. 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 2016, the Fund's current assets of \$417,522 were sufficient to cover current liabilities of \$53,285, a ratio of \$7.84 in assets for every dollar in liabilities. For FY 2015, the total current assets and current liabilities of the Fund were \$369,594 and \$57,111 respectively; a ratio of \$6.47 in assets for every dollar in liabilities.

Table 2 - Summary of Revenue, Expenses, and Change in Net Position

	FY2016	FY2015	Change	FY2014	Change
Operating Revenues:					
Employer Taxes	\$145,887	\$148,889	(\$3,002)	\$141,760	\$7,129
Governmental Contributions	12,028	14,561	(2,533)	9,766	4,795
Total Operating Revenues	157,915	163,450	(5,535)	151,526	11,924
Operating Expenses:					
Unemployment Benefits	114,633	119,267	(4,634)	160,403	(41,136)
Operating Income/(Loss)	43,282	44,183	(901)	(8,877)	53,060
Non-operating Revenues:					
Interest Revenue	8,472	7,655	817	7,326	329
Federal Contributions	-	-	-	20,244	(20,244)
Total Non-operating Revenues	8,472	7,655	817	27,570	(19,915)
Change in Net Position	51,754	51,838	(84)	18,693	33,145
Total Net Position - Beginning	312,483	260,645	51,838	241,952	18,693
Total Net Position - Ending	\$364,237	\$312,483	\$51,754	\$260,645	\$51,838

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

(Dollar amounts expressed in thousands)

OVERALL FINANCIAL ANALYSIS (continued)

Revenue

Total operating revenue and non-operating revenue were \$166,387 in FY 2016, compared to \$171,105 for FY 2015 and \$179,096 for FY 2014.

In FY 2016, the Fund's operating revenue totaled \$157,915, compared to \$163,450 in FY 2015 and \$151,526 in FY 2014. Operating revenue decreased by \$5,535 or 3.39% from FY 2015 to FY 2016 due to a decrease in governmental contributions and employer's tax receipts. Operating revenues increased by \$11,924 or 7.87% from FY 2014 to FY 2015, due to an increase 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 revenue for the Fund in FY 2016, 2015 and 2014.

Table 3 - Operating Revenue by Sources

Operating Revenue by Sources	FY2016	FY2015	Change	% Change	FY2014	Change	% Change
Employer Taxes	\$145,887	\$148,889	(\$3,002)	(2.02%)	\$141,760	\$7,129	5.03%
Governmental Contributions:							
Other States' Contributions	2,855	2,890	(35)	(1.21%)	4,483	(1,593)	(35.53%)
Federal Government	4,665	6,606	(1,941)	(29.38%)	(1,337)	7,943	594.01%
D.C. Government	<u>4,508</u>	<u>5,065</u>	<u>(557)</u>	<u>(11.00%)</u>	<u>6,620</u>	<u>(1,555)</u>	<u>(23.49%)</u>
Total	<u>\$157,915</u>	<u>\$163,450</u>	<u>(\$5,535)</u>	<u>(3.39%)</u>	<u>\$151,526</u>	<u>\$11,924</u>	<u>7.87%</u>

Federal government contributions were \$4,665 for FY 2016, compared to \$6,606 in FY 2015. This decrease is mainly due to a decline in reimbursable revenue relating to eligible unemployed former civilian federal employees (UCFE) and ex-service members (UCX). In FY 2015, Federal government reimbursement revenue was \$6,606, due to an increase 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 source of non-operating revenue increased to \$8,472 in FY 2016 from \$7,655 in FY 2015, resulting in an increase of \$817 or 10.67%; this is due to an increase of \$48,693 or 13.61% in the cash held with U.S. Treasury from \$357,903 to \$406,596 in FY 2015 and FY 2016, respectively. Normally, the non-operating revenue consists of interest income and federal extended benefits. There were no federal extended benefits in FY 2016 and FY 2015.

Figures 1 and 2 show the percentage of revenue received from the Fund's different sources during FY 2016 and FY 2015. Taxes paid by employers were the largest source of revenue, which represented 88% of total revenue in FY2016 compared to 87% and 79% of total revenue in FY 2015 and FY 2014 respectively.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
(Dollar amounts expressed in thousands)

OVERALL FINANCIAL ANALYSIS (continued)

Revenues (continued)

Figure 1: Total Revenue (Operating and Non-Operating) for the Year Ended September 30, 2016

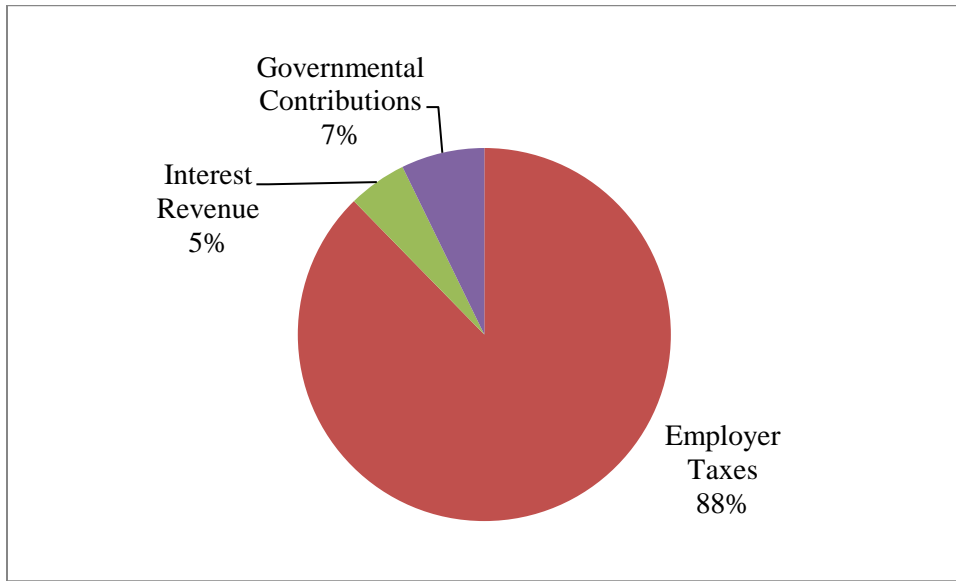
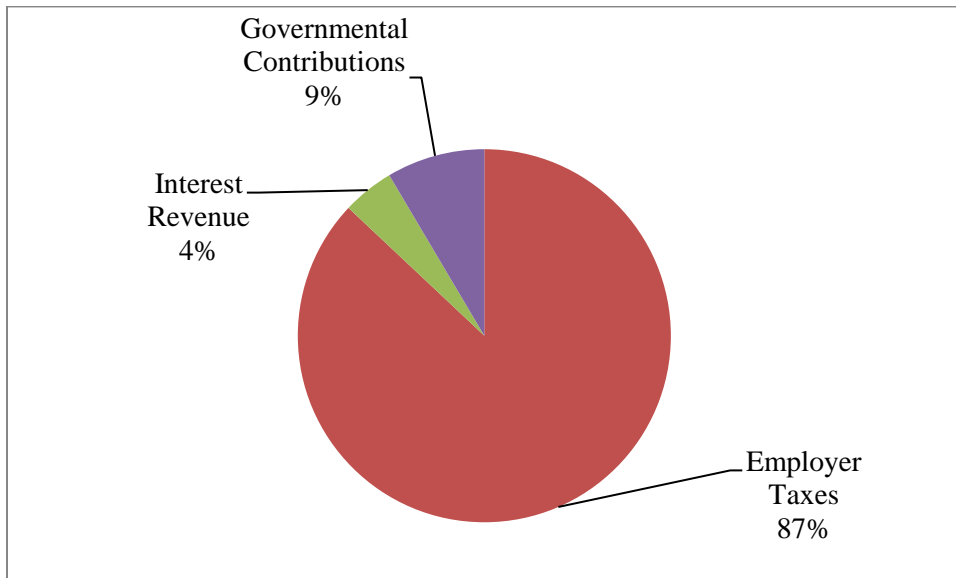


Figure 2: Total Revenue (Operating and Non-Operating) for the Year Ended September 30, 2015



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

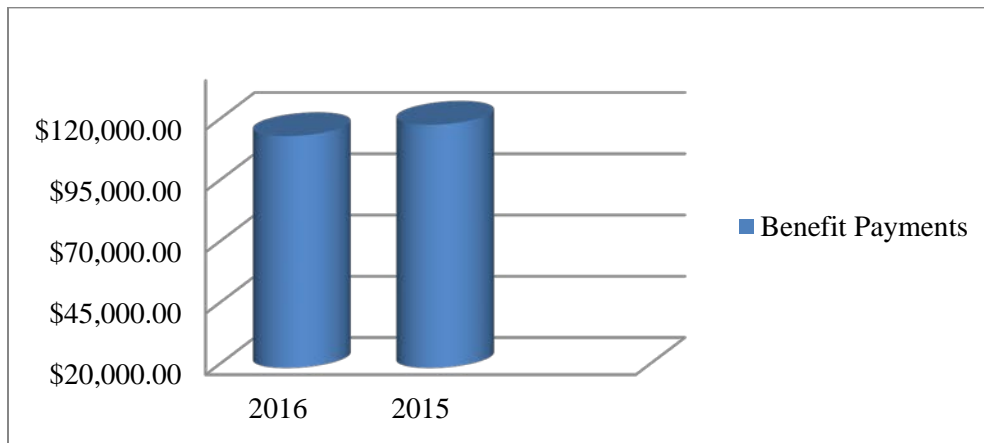
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
(Dollar amounts expressed in thousands)

OVERALL FINANCIAL ANALYSIS (continued)

Expenses

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

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



The Fund's unemployment benefit payments decreased by \$4,634 or 3.89% in FY 2016, compared to a decrease of \$41,136 or 25.65% in FY 2015 and a decrease of \$95,242 or 37.26% in FY 2014. The drop in benefit payments can be attributed to the decline in the overall average unemployment rate of approximately 1.1% and the reduction of federal extended benefits. Average unemployment rate within the District decreased to 6.3% as of September 30, 2016 from 7.4% as of September 30, 2015, representing a 1.1% decrease.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
(Dollar amounts expressed in thousands)

Table 4: District's unemployment rate by month for the year ended September 30, 2016

FY 2016 Average Unemployment Rate = 6.3%					
Current Year	Month	Labor Force	Number of Employed	Number of Unemployed	Unemployment Rate (%)
2015	Oct	390,102	364,279	25,823	6.6
2015	Nov	390,434	364,703	25,731	6.6
2015	Dec	390,661	364,977	25,684	6.6
2016	Jan	391,787	366,350	25,437	6.5
2016	Feb	392,789	367,082	25,707	6.5
2016	Mar	394,238	368,544	25,694	6.5
2016	Apr	396,620	371,361	25,259	6.4
2016	May	397,398	373,304	24,094	6.1
2016	Jun	398,044	374,360	23,684	6.0
2016	Jul	396,827	373,470	23,357	5.9
2016	Aug	394,920	371,231	23,689	6.0
2016	Sept	392,881	368,763	24,118	6.1

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 (continued)
(Dollar amounts expressed in thousands)

Table 5: 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	389,712	363,754	25,958	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 (continued)

(Dollar amounts expressed in thousands)

ECONOMIC CONDITION AND OUTLOOK

According to the U.S Census Bureau, in fiscal year (FY) 2016, the employment rate in the District continued to increase with two thirds of the additional jobs in the private sector and one third in the government (both federal and local). 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 four years (between 2012 and 2016), the District's population has grown by more than 45,843 residents, an increase that has averaged more than 955 residents per month over that period of time. Sustained growth in the national economy has also contributed to the District's growing tax base.

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

The following are summaries of recent trends in the District's economy according to data released by the U.S. Bureau of Economic Analysis and the U.S. Bureau of Labor Statistics.

- The U.S. Census Bureau estimated that there were 681,170 residents in the District of Columbia, as of July 1, 2016. This represents an increase of 10,793 or 1.6%, from the revised July 1, 2015 estimate of 670,377.
- Income has grown considerably in the District in recent years. From the third quarter of 2010 to the third quarter of 2016, personal income grew approximately 38% in the District as compared to 28.5% nationally.
- Job growth has picked up since last year. In the three months ended September 2016, there were 35,300 (or 1.5%) more wage and salary jobs located in the District than a year earlier..
- Total employment within the District increased to 782,800 as of September 2016 from the revised 767,100 as of September 2015. 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 2016 federal workforce in the Washington metropolitan area was 369,800.
- The September 2016 unemployment rate was 6.1 percent (seasonally adjusted), a decrease from the revised 6.7% a year ago.
- Wages earned in the District of Columbia grew 7.4% in the September 2016 quarter compared to the same quarter a year ago. D.C. personal income was 5.5% higher. .

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
(Dollar amounts expressed in thousands)

ECONOMIC CONDITION AND OUTLOOK (continued)

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

	FY2016	FY2015	FY2014	FY2013	FY2012
Employer Taxes / Government Contributions	\$157,915	\$163,450	\$171,770	\$259,976	\$344,115
Interest Earned	8,472	7,655	7,326	7,690	8,495
Benefits Paid	114,633	119,267	160,403	255,645	344,913
Net Position	364,237	312,483	260,645	241,952	229,930
Total Wages*	\$17,057,945	\$15,897,609	\$15,287,453	\$14,989,666	\$14,632,489

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

Financial Outlook

The financial condition of the 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)
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
2016	157,915	114,633	43,282

Table 8: Taxable Wages

Quarter Ending	FY2016	FY2015	FY2014
December 31	\$509,111	\$454,855	\$398,925
March 31	3,364,553	3,253,028	3,142,456
June 30	765,516	768,128	694,453
September 30	570,646	557,951	532,569

Source: DOES, Office of Labor Market Research and Information

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
(Dollar amounts expressed in thousands)

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, 2016 AND 2015
(\$000s)**

	2016	2015
Current Assets:		
Cash Held With U.S. Treasury (note 2)	\$ 406,596	\$ 357,903
Accounts Receivable, Net (note 3)	9,907	10,374
Due From D.C. Government (note 4)	419	522
Due From Federal Government (note 5)	600	795
Total Current Assets	417,522	369,594
Current Liabilities:		
Accounts Payable (note 6)	11,152	9,717
Claimants Payable (note 7)	20,238	21,891
Due To D.C. Government (note 8)	21,895	25,503
Total Current Liabilities	53,285	57,111
Net Position:		
Restricted For Unemployment Compensation Benefits	\$ 364,237	\$ 312,483

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, AND 2015
(\$000s)**

	<u>2016</u>	<u>2015</u>
Operating Revenues:		
Employer Taxes	\$ 145,887	\$ 148,889
Governmental Contributions (note 9)	12,028	14,561
Total Operating Revenues	<u>157,915</u>	<u>163,450</u>
Operating Expenses:		
Unemployment Benefits	114,633	119,267
Total Operating Expenses	<u>114,633</u>	<u>119,267</u>
Operating Income	43,282	44,183
Non-operating Revenues:		
Interest Revenues	8,472	7,655
Total Non-Operating Revenues	<u>8,472</u>	<u>7,655</u>
Change In Net Position	51,754	51,838
Total Net Position - Beginning	<u>312,483</u>	<u>260,645</u>
Total Net Position - Ending	<u><u>\$ 364,237</u></u>	<u><u>\$ 312,483</u></u>

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, AND 2015
(\$000s)**

	2016	2015
Cash Flows From Operating Activities:		
Cash Receipts From Employers	\$ 146,457	\$ 149,759
Cash Receipts From Governmental Contributions	12,223	14,621
Cash Payments For Other Liabilities	(2,173)	(7,945)
Cash Payments To Claimants	(116,286)	(123,359)
Net Cash Provided By Operating Activities	40,221	33,076
 Cash Flows From Investing Activities:		
Interest Income	8,472	7,655
Net Cash Provided By Investing Activities	8,472	7,655
 Net Increase In Cash	48,693	40,731
 Cash, Beginning of Year	357,903	317,172
 Cash, Ending of Year	\$ 406,596	\$ 357,903
 <i>Reconciliation Of Operating Income To Net Cash Provided By Operating Activities:</i>		
Operating Income	\$ 43,282	\$ 44,183
Adjustments To Reconcile Operating Income To Net Cash Provided By Operating Activities		
Decrease (Increase) In Receivables	570	870
Decrease (Increase) In Due from Federal Government	195	60
(Decrease) Increase In Payables	(3,826)	(12,037)
Total Adjustments	(3,061)	(11,107)
Net Cash Provided By Operating Activities	\$ 40,221	\$ 33,076

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, 2016 AND 2015**

(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 the Government of the District of Columbia 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 Revenue 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 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 benefit payments beyond the 26 week 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, revenue, 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.

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

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015**

(Dollar amounts expressed in thousands)

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

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 Revenue, Expenses, and Change in Net Position are presenting increases (revenue) 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Accounting Pronouncements:

During the fiscal year, the Fund implemented Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application* and Governmental Accounting Standards Board (GASB) Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements issued in February 2015 and June 2015 respectively became effective for the Fund in fiscal year 2016. There was no material impact on the financial statements.

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 ("the 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, 2016 and 2015, was \$8,472 and \$7,655, respectively. As of September 30, 2016, cash held at the Treasury was \$406,596 compared to \$357,903 at September 30, 2015. The 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.

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

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015
(Dollar amounts expressed in thousands)**

NOTE 3 ACCOUNTS RECEIVABLE, NET

The Fund's accounts receivable consisted of the following as of September 30, 2016 and 2015:

	2016	2015
Employer Receivables	\$ 19,040	\$ 22,616
Claimant Receivables	13,748	17,335
Due from Other States	736	974
Total Receivables	33,524	40,925
Less: Allowance for Doubtful Accounts	(23,617)	(30,551)
Accounts Receivable, Net	\$ 9,907	\$ 10,374

Employer contributions are recognized as revenue 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 benefit overpaid are identified. Due from other funds/states is the amount owed to the Fund from the District and 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 2016 and 2015, the amount due from the District was \$419 and \$522 respectively.

NOTE 5 DUE FROM FEDERAL GOVERNMENT

As of September 30, 2016, the amount due from the Federal government was \$600, compared to \$795 as of September 30, 2015. The balance due from the Federal government represents benefit payments accrued for eligible unemployed former civilian Federal employees and for eligible ex-military personnel.

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

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015
(Dollar amounts expressed in thousands)**

NOTE 6 ACCOUNTS PAYABLE

As of September 30, 2016 and 2015, 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.

	2016	2015
Employer Tax Refund Payable	\$ 8,294	\$ 7,207
Income Tax Payable	107	114
Due to Other States	2,615	2,390
Others	136	6
Total Accounts Payable	\$ 11,152	\$ 9,717

NOTE 7 CLAIMANTS PAYABLE

Claimants Payable are estimated amounts due to claimants for the remaining periods of eligibility for claims filed as at September 30, 2016, that are payable in the next fiscal year. Claimants Payable as of September 30, 2016 and 2015, were \$20,238 and \$21,891, 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, 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, 2016 and 2015 were \$21,895 and \$25,503, respectively.

NOTE 9 GOVERNMENTAL CONTRIBUTIONS

Governmental contributions consisted of the following for the years ended September 30, 2016 and 2015.

	2016	2015
Other States Contributions	\$ 2,855	\$ 2,890
Federal Government	4,665	6,606
District Government	4,508	5,065
Total Governmental Contributions	\$ 12,028	\$ 14,561

NOTE 10 COMMITMENTS AND CONTINGENCIES

As of September 30, 2016 and September 30, 2015, there were no matters of litigation involving the 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.

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

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015**
(Dollar amounts expressed in thousands)

NOTE 11 SUBSEQUENT 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 OF INDEPENDENT PUBLIC ACCOUNTANTS 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 the Government of the District of Columbia
Inspector General of the Government of the 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, 2016, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated December 22, 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 opinion 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 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 Fund'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 Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Washington, DC
December 22, 2016

SB & Company, LLC