

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

**DISTRICT OF COLUMBIA**

**UNEMPLOYMENT COMPENSATION FUND**

**Financial Statements  
(with Independent Auditors' Report Thereon)  
Year Ended September 30, 2009**



**CHARLES J. WILLOUGHBY  
INSPECTOR GENERAL**

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**Office of the Inspector General**

Inspector General



March 30, 2010

The Honorable Adrian M. Fenty  
Mayor  
District of Columbia  
The John A. Wilson Building  
Mayor's Correspondence Unit, Suite 316  
1350 Pennsylvania Avenue, N.W.  
Washington, D.C. 20004

The Honorable Vincent C. Gray  
Chairman  
Council of the District of Columbia  
John A. Wilson Building, Suite 504  
1350 Pennsylvania Avenue, N.W.  
Washington, D.C. 20004

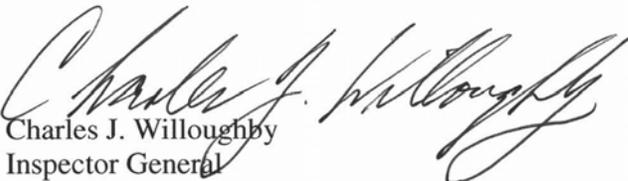
Dear Mayor Fenty and Chairman Gray:

As part of our contract for the audit of the District of Columbia's general purpose financial statements for fiscal year (FY) 2009, Bert Smith and Company (Bert Smith) submitted the enclosed final report on the District of Columbia Unemployment Compensation Fund (Fund).

Bert Smith opined that the financial statements present fairly, in all material respects, the financial position of the Fund, for the year ended September 30, 2009, in conformity with accounting principles generally accepted in the United States of America. In accordance with *Government Accounting Standards*, Bert Smith has also issued its report on consideration of the Fund's internal control over financial reporting.

If you have questions or need additional information, please contact Victoria Lucchesi, Acting Assistant Inspector General for Audit, at (202) 727-2540.

Sincerely,

  
Charles J. Willoughby  
Inspector General

Enclosure

CJW/ws

cc: See Distribution List

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Mayor Fenty and Chairman Gray  
FY 2009 Unemployment Compensation Fund  
Financial Statements (with Independent Auditor's  
Report Thereon)  
OIG No. 10-1-12BH – Final Report  
March 30, 2010  
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**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
UNEMPLOYMENT COMPENSATION FUND**  
**FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2009**  
*(Together With Independent Auditors' Report)*

**BERT SMITH  
& Co.**

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Certified Public Accountants and Management Consultants

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

**FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

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## INDEPENDENT AUDITORS' REPORT

To the Mayor, Members of the Council, and the  
Inspector General of the Government of the District of Columbia

We have audited the accompanying financial statements of the Government of the District of Columbia Unemployment Compensation Fund (the Fund) as of and for the year ended September 30, 2009, as listed in the table of contents. 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. The financial statements of the Fund as of September 30, 2008, were audited by other auditors whose report dated May 6, 2009, expressed an unqualified opinion on those statements.

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 of America. 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 present 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, 2009, and the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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, 2009, and changes in its financial position and its cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 19, 2010, 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 important in assessing the results of our audit.

Member, American Institute of Certified Public Accountants - Private Companies Practice Section

Management's discussion and analysis on pages 3 through 7 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. 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.

*Bert Smith & Co.*

Washington, D.C.  
February 19, 2010

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**UNEMPLOYMENT COMPENSATION FUND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**SEPTEMBER 30, 2009**

---

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, 2009. 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, 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 Revenues, 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 Flows

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

**Financial Highlight**

At September 30, 2009, the District's average unemployment rate was 8.9%, which was a 41% increase from 2008. This increase resulted in a decrease in the Fund's net assets by \$69,508.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**UNEMPLOYMENT COMPENSATION FUND**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
SEPTEMBER 30, 2009

**Overall Financial Analysis**

**Summary of Net Assets**  
(\$000)

|   | <u>2009</u>       | <u>2008</u>       | <u>Variance</u>    |
|---|-------------------|-------------------|--------------------|
| <b>Assets</b>                                     |                   |                   |                    |
| Cash Held with U.S. Treasury                      | \$ 366,403        | \$ 422,799        | \$ (56,396)        |
| Receivables                                       | 28,470            | 7,608             | 20,862             |
| <b>Total Assets</b>                               | <u>\$ 394,873</u> | <u>\$ 430,407</u> | <u>\$ (35,534)</u> |
| <b>Liabilities</b>                                |                   |                   |                    |
| Payables  | \$ 70,329         | \$ 44,987         | \$ 25,342          |
| Due to D.C. Government                            | 19,770            | 11,138            | 8,632              |
| <b>Total Liabilities</b>                          | <u>90,099</u>     | <u>56,125</u>     | <u>33,974</u>      |
| <b>Net Assets</b>                                 |                   |                   |                    |
| Restricted for Unemployment Compensation Benefits | <u>\$ 304,774</u> | <u>\$ 374,282</u> | <u>\$ (69,508)</u> |

- The Fund's largest asset is the cash held with U.S. Treasury, which represented 92.79% of the Fund's total assets. The cash balance decreased by \$56,396 as a result of unemployment benefits payments exceeding the cash receipts from employer taxes and governmental agencies.
- Receivables, which is net of allowance for doubtful accounts increased by \$20,862. 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. The majority of the increase is from the federal government, which is \$18,883. The federal government paid claimants an additional \$25 in weekly unemployment benefits under the American Recovery and Reinvestment Act of 2009 (stimulus funds). It also paid the extended benefits received by claimants. Claimants who have exhausted their regular unemployment benefits and have met certain requirements were eligible for additional weeks of unemployment compensation benefits.
- The Fund's payables increased by \$33,974 or 60.53%. Amounts due to claimants for unemployment benefits comprise a major portion of the payables. This payable which totaled \$61,028 increased significantly from prior year as a result of the high unemployment rate as more individuals filed for unemployment benefits in 2009. In 2008, the claimant payable was \$38,280. The Fund's payables also increased by \$41,165 from 2008 for amounts owed to employers for tax overpayments and other States for benefits paid to former District employees.
- Due to D.C. Government represent amounts owed to the District for unemployment benefits and employer tax refunds paid on behalf of the Fund and the Reed funds received from federal government to be used by the District to pay for the Fund's administrative costs. In 2009, the Fund received an additional \$11,185 in Reed funds from the federal government. During the fiscal year, the Fund remitted \$3,141 of the available Reed funds to the District for a portion of the administrative costs incurred for the fiscal year. At September 30, 2009, the unspent Reed Funds totaled \$18,084.
- The Fund's current assets of \$394.873 were sufficient to cover current liabilities of \$90,099, a ratio of \$4.4 dollars in assets for every dollar in liabilities.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
UNEMPLOYMENT COMPENSATION FUND  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
SEPTEMBER 30, 2009**

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

|   | <u>2009</u>        | <u>2008</u>     | <u>Variance</u>    |
|---|--------------------|-----------------|--------------------|
| <b>Revenues</b>                         |                    |                 |                    |
| Employer Taxes                          | \$ 94,622          | \$ 95,298       | \$ (676)           |
| Governmental Contributions              | 36,985             | 18,627          | 18,358             |
| <b>Total Revenue</b>                    | <u>131,607</u>     | <u>113,925</u>  | <u>17,682</u>      |
| <b>Expenses</b>                         |                    |                 |                    |
| Unemployment Benefits                   | <u>370,775</u>     | <u>150,237</u>  | <u>220,538</u>     |
| <b>Nonoperating Revenues (Expenses)</b> |                    |                 |                    |
| Interest Revenue                        | 18,417             | 19,918          | (1,501)            |
| Federal Contributions                   | 151,243            | 15,529          | 135,714            |
| <b>Total Nonoperating Revenues</b>      | <u>169,660</u>     | <u>35,447</u>   | <u>134,213</u>     |
| <b>Change in Net Assets</b>             | <u>\$ (69,508)</u> | <u>\$ (865)</u> | <u>\$ (68,643)</u> |

**Revenues**

In fiscal year 2009, the Fund's operating revenue totaled \$131,607 compared to \$113,925 in fiscal year 2008. Operating revenues increased by 15.52% due to increases in governmental contributions. Government contributions increased as more former employees filed for unemployment benefits. Federal and local governments reimburse the Fund 100% for benefits paid to their former employees. Operating revenue came primarily from employer taxes.

Revenues from all source (operating and non-operating) totaled \$301,267 in 2009 compared to \$149,372 in 2008. The sources of operating revenue for the Fund in fiscal year 2009 include:

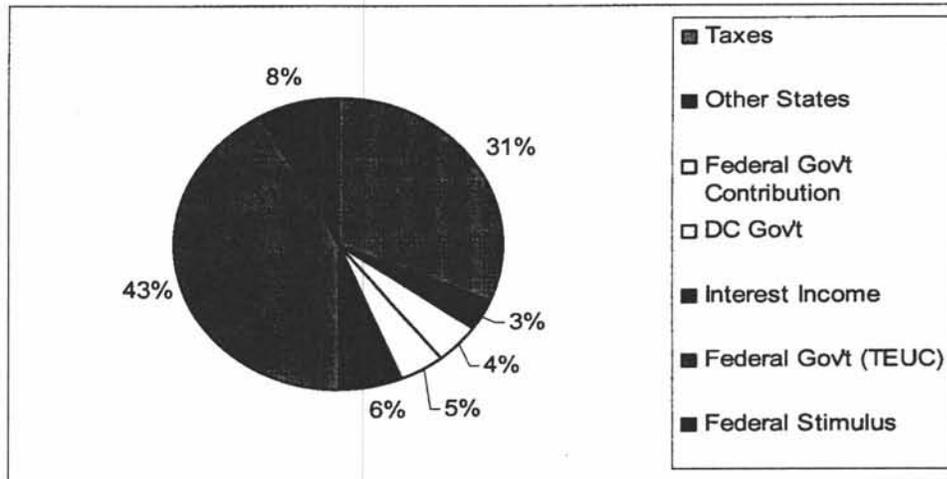
- \$94,622 from employer taxes,
- \$10,386 from other States contributions,
- \$12,668 from the Federal government (contribution), and
- \$13,931 reimbursed from the District government.

The Fund's sources of non-operating revenue are interest income, extended benefits, and federal stimulus contribution. Total non-operating income in 2009 was \$169,660 compared to \$35,447 in 2008. The increase in non-operating income is from the federal government for extended benefits and stimulus funds provided to claimants. During the fiscal year, the federal government expanded its extended benefits program which enabled claimants if eligible to receive several additional weeks of unemployment benefits. The federal government also provided \$25 in additional unemployment benefits to claimants receiving regular and extended benefits.

Figure 1 shows the percentage of revenues received from the Fund's different sources. The largest source of revenue was from the federal government for extended benefits.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
UNEMPLOYMENT COMPENSATION FUND  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
SEPTEMBER 30, 2009**

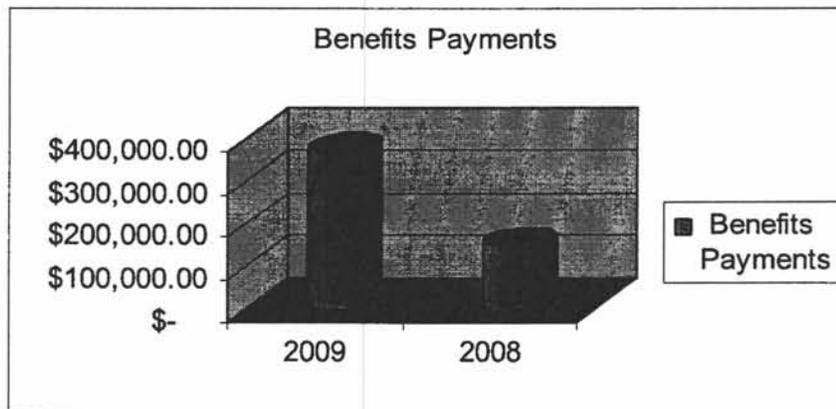
**Figure 1: Total Revenues (Operating and Non-Operating) for the year ended September 30, 2009**



**Expenses**

The Fund's only operating expense is unemployment benefit payments. Figure 2 shows the comparison of benefits payments in 2009 and 2008.

**Figure 2: Total Operating Expense for the year ended September 30, 2009**



In fiscal year 2009, the Fund's unemployment benefits increased by \$220,538 or 146.79%, due to the increase in unemployment in the District. In 2009, the average unemployment rate was 8.9% compared to 7.1% in 2008. During the fiscal year, the number of initial claims rose by 60% and duration of benefits received increased slightly from 57.4% to 58.2% of all claimants exhausting their benefits. The District is currently in its third extended benefit period.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**UNEMPLOYMENT COMPENSATION FUND**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
SEPTEMBER 30, 2009

**Figure 3:** Shows the District's unemployment rate by month for year ended September 30, 2009

| <b>Year</b>                     | <b>Period</b> | <b>Labor Force</b> | <b>Employment</b> | <b>Unemployment</b> | <b>Unemployment Rate</b> |
|---------------------------------|---------------|--------------------|-------------------|---------------------|--------------------------|
| 2008                            | Oct           | 333,261            | 307,560           | 25,701              | 7.7                      |
| 2008                            | Nov           | 332,550            | 305,997           | 26,553              | 8.0                      |
| 2008                            | Dec           | 33,2805            | 305,402           | 27,403              | 8.2                      |
| 2009                            | Jan           | 332,151            | 301,561           | 30,590              | 9.2                      |
| 2009                            | Feb           | 331,791            | 299,107           | 32,684              | 9.9                      |
| 2009                            | Mar           | 328454             | 296,495           | 31,959              | 9.7                      |
| 2009                            | Apr           | 326,180            | 293,956           | 32,224              | 9.9                      |
| 2009                            | May           | 328,977            | 293,801           | 35,176              | 10.7                     |
| 2009                            | Jun           | 328,293            | 292,628           | 35,665              | 10.9                     |
| 2009                            | Jul           | 329,606            | 294,733           | 34,873              | 10.6                     |
| 2009                            | Aug           | 324,387            | 288,471           | 35,916              | 11.1                     |
| 2009                            | Sep           | 327,883            | 290,582           | 37,301              | 11.4                     |
| <b>Fiscal Year 2009 Average</b> |               |                    |                   |                     | <b>8.9</b>               |

**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, N.W., Washington, D.C., 20004.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**UNEMPLOYMENT COMPENSATION FUND**  
**STATEMENT OF NET ASSETS**  
**SEPTEMBER 30, 2009**  
*(With Comparative Totals for 2008)*  
*(in thousands)*

|   | <b>2009</b>       | <b>2008</b>       |
|---|-------------------|-------------------|
| <b>Current Assets</b>                             |                   |                   |
| Cash Held with U.S. Treasury                      | \$ 366,403        | \$ 422,799        |
| Accounts Receivable, Net                          | 9,587             | 7,608             |
| Due from Federal Government                       | 18,883            | -                 |
| <b>Total Current Assets</b>                       | <b>\$ 394,873</b> | <b>\$ 430,407</b> |
| <b>Current Liabilities</b>                        |                   |                   |
| Accounts Payable                                  | \$ 9,301          | \$ 6,707          |
| Claimant Payable                                  | 61,028            | 38,280            |
| Due to D.C Government                             | 19,770            | 11,138            |
| <b>Total Current Liabilities</b>                  | <b>90,099</b>     | <b>56,125</b>     |
| <b>Net Assets</b>                                 |                   |                   |
| Restricted for Unemployment Compensation Benefits | <b>\$ 304,774</b> | <b>\$ 374,282</b> |

*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, 2009**  
*(With Comparative Totals for 2008*  
*(in thousands)*

|  | <u>2009</u>       | <u>2008</u>       |
|--|-------------------|-------------------|
| <b>Operating Revenue</b>               |                   |                   |
| Employer Taxes                         | \$ 94,622         | \$ 95,298         |
| Other States Contribution              | 10,386            | 7,868             |
| Federal Contribution                   | 12,668            | 4,300             |
| District Contribution                  | 13,931            | 6,459             |
| Total Operating Revenues               | <u>131,607</u>    | <u>113,925</u>    |
| <b>Operating Expenses</b>              |                   |                   |
| Unemployment Benefits                  | <u>370,775</u>    | <u>150,237</u>    |
| Total Operating Expenses               | <u>370,775</u>    | <u>150,237</u>    |
| <b>Operating Loss</b>                  | (239,168)         | (36,312)          |
| <b>Nonoperating Revenue (Expenses)</b> |                   |                   |
| Interest Revenue                       | 18,417            | 19,918            |
| Federal Extended Benefit Contribution  | 127,849           | 15,529            |
| Federal Stimulus Contribution          | 23,394            | -                 |
| Total Nonoperating Revenues (Expenses) | <u>169,660</u>    | <u>35,447</u>     |
| <b>Change in Net Assets</b>            | (69,508)          | (865)             |
| Total Net Assets - Beginning           | <u>374,282</u>    | <u>375,147</u>    |
| Total Net Assets - Ending              | <u>\$ 304,774</u> | <u>\$ 374,282</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, 2009**  
*(With Comparative Totals for 2008)*  
*(in thousands)*

|   | <u>2009</u>         | <u>2008</u>        |
|---|---------------------|--------------------|
| <b>Cash Flows from Operating Activities</b>   |                     |                    |
| Cash Receipts from Employers  | \$ 95,779           | \$ 97,082          |
| Cash Receipts from Federal Government   | 12,652              | 4,300              |
| Cash Receipts from District Government  | 15,086              | 4,385              |
| Cash Receipts from Other States   | 7,099               | 8,097              |
| Cash Payments to Claimants  | <u>(345,847)</u>    | <u>(131,756)</u>   |
| <b>Net Cash Used in Operating Activities</b>  | <u>(215,231)</u>    | <u>(17,892)</u>    |
| <br><b>Cash Flows from Investing Activities</b>                                       |                     |                    |
| Interest Income received  | <u>18,417</u>       | <u>19,918</u>      |
| <b>Net Cash Provided by Investing Activities</b>                                      | <u>18,417</u>       | <u>19,918</u>      |
| <br><b>Cash Flows from Noncapital Financing Activities</b>                            |                     |                    |
| Federal Extended Benefit Contribution   | 113,623             | 15,529             |
| Federal Stimulus Contribution   | 18,751              | -                  |
| Federal Government Reed Act Contribution  | 11,185              | -                  |
| District Reed Fund Payments   | <u>(3,141)</u>      | <u>-</u>           |
| <b>Net Cash Provided by Noncapital Financing Activities</b>                           | <u>140,418</u>      | <u>15,529</u>      |
| <br><b>Net Decrease (Increase) in Cash Equivalents</b>                                | (56,395)            | 17,555             |
| <br><b>Cash Equivalents, Beginning of Year</b>  | <u>422,799</u>      | <u>405,244</u>     |
| <br><b>Cash Equivalents, Ending of Year</b>   | <u>\$ 366,403</u>   | <u>\$ 422,799</u>  |
| <br><b>Reconciliation of Operating Loss to Net Cash Used in Operating Activities:</b> |                     |                    |
| Operating Loss  | \$ (239,168)        | \$ (36,312)        |
| Decrease (Increase) in Assets:  |                     |                    |
| Receivables   | (1,994)             | (59)               |
| Increase (Decrease) in Liabilities:   |                     |                    |
| Payables  | <u>25,931</u>       | <u>18,479</u>      |
| <b>Net Cash Used in Operating Activities</b>  | <u>\$ (215,231)</u> | <u>\$ (17,892)</u> |

*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, 2009**

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

The Fund is funded by employer taxes and reimbursements from governmental agencies for regular unemployment benefits paid to former employees. The Fund is also reimbursed by the federal government for extended benefits paid to eligible claimants.

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 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 Governmental Accounting Standards Board (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.

***Measurement Focus:*** The financial statements are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities are included in the statement of net assets. The related statement of revenue, expenses, and changes in net assets presents increases (revenues) and decreases (expenses) in net assets.

***Basis of Presentation:*** The Fund's financial statements are presented in accordance with Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

**Use of Estimates:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

**Reclassifications:** Certain reclassifications have been made to 2008 financial statements to conform to the 2009 financial statements.

**NOTE 2 CASH HELD WITH U.S. TREASURY**

The Fund’s cash are held at the U.S. Department of Treasury in a trust fund in the District’s name. Pursuant to the Social Security Act, the funds held at the U.S. Department of Treasury earn interest quarterly based on the interest rates of the U.S. Department of Treasury’s Certificates of Indebtedness. Interest earned in 2009 was \$18,417. At September 30, 2009, cash held at U.S. Department of Treasury was \$366,403.

**NOTE 3 ACCOUNTS RECEIVABLE**

The Fund’s accounts receivable consist of the following at September 30, 2009:

|                                       | <u>2009</u>     |
|---------------------------------------|-----------------|
| Employer Receivable                   | \$ 9,167        |
| Claimant Receivable                   | 5,596           |
| Due from Other States                 | <u>5,092</u>    |
| Total Receivables                     | 19,855          |
| Less: Allowance for Doubtful Accounts | <u>(10,268)</u> |
| Net Accounts Receivable               | <u>\$ 9,587</u> |

**NOTE 4 DUE FROM FEDERAL GOVERNMENT**

The federal government reimburses the Fund for extended benefits paid to eligible claimants who have exhausted their 26 weeks of regular benefits. Under the American Recovery and Reinvestment Act of 2009 (stimulus funds), the federal government also provided an additional \$25 in weekly unemployment benefits to claimants receiving regular and extended benefits. At September 30, 2009, the estimated amount owed from the federal government for extended benefits and stimulus funds expected to be paid on claims filed during the fiscal year is \$18,883.

**NOTE 5      ACCOUNTS PAYABLE**

At September 30, 2009, 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.

|                             |                 |
|-----------------------------|-----------------|
| Employer Tax Refund Payable | \$ 3,264        |
| Due to Other States         | 5,787           |
| Others                      | <u>250</u>      |
| Total Accounts Payable      | <u>\$ 9,301</u> |

**NOTE 6      DUE TO D.C. GOVERNMENT**

***Unemployment Benefits and Tax Refunds***

The District pays on behalf of the Fund the unemployment benefits paid to claimants and employer tax refunds. The Fund then reimburses the District. At September 30, 2009, the amount owed to the District for unreimbursed benefits and tax refund was \$3,115.

The District reimburses the Fund for unemployment benefits paid to former District employees. At September 30, 2009, the amount owed from the District for unreimbursed benefits was \$1,739.

***Interest and Penalty***

The Fund collects on behalf of the District Interest and penalties assessed and collected from employers for paying their taxes late. At September 30, 2009, the amount payable to the District was \$310.

***Reed Act Distributions***

The Fund receives from the federal government Reed Act distributions which are required to be used either for paying unemployment benefits or the Fund's administrative expenses. The Fund elects to use the funds for administrative purposes. Since the Fund's administrative expenses are paid by the District, any funds received from the federal government are shown as a Due to D.C. Government. During the fiscal year, the Fund received an additional \$11,185 in Reed Act distributions. The Fund also reimbursed the District \$3,141 for administrative expenses incurred in the current and prior fiscal years. As of September 30, 2009, the total amount of Reed funds payable to the District was \$18,084.



**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**

To the Mayor, Members of the Council, and  
Inspector General of the Government of the District of Columbia

We have audited the financial statements of the Government of the District of Columbia Unemployment Compensation Fund (the Fund) as of and for the year ended September 30, 2009, and have issued our report thereon February 19, 2010. 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**

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 *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Fund's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Fund's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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*.

Member, American Institute of Certified Public Accountants - Private Companies Practice Section

This report is intended solely for the information and use of the Mayor, the Council, the Inspector General, management of the Fund, and the Department of Labor, and is not intended to be and should not be used by anyone other than these specified parties.

*Beatt Smith & Co.*

Washington, D.C.

February 19, 2010