

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

DISTRICT OF COLUMBIA

UNEMPLOYMENT COMPENSATION FUND

**Financial Statements
Years Ended September 30, 2013, and 2012**

(With Independent Auditors' Report Thereon)



**CHARLES J. WILLOUGHBY
INSPECTOR GENERAL**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



May 19, 2014

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 504
1350 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

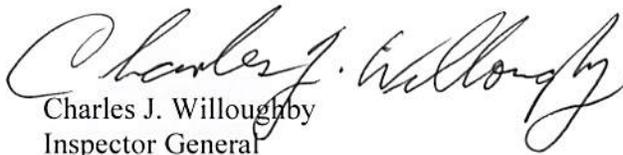
Dear Mayor Gray and Chairman Mendelson:

As part of our contract for the audit of the District of Columbia's general purpose financial statements for fiscal year (FY) 2013, KPMG LLP (KPMG) submitted the enclosed final report on the District of Columbia Unemployment Compensation Fund (Fund) Financial Statements for years ended September 30, 2013, and 2012 (OIG No. 14-1-10BH).

KPMG opined that the financial statements present fairly, in all material respects, the respective net position of the Fund, and respective changes in fund net position and cash flows thereof for the year then ended, in accordance 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 significant deficiencies or material weaknesses in internal control.

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

CJW/ws

Enclosure

cc: See Distribution List

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The Honorable Ander Crenshaw, Chairman, House Subcommittee on Financial Services and General Government, Attention: Amy Cushing (via email)
The Honorable José E. Serrano, Ranking Member, House Subcommittee on Financial Services and General Government, Attention: Angela Ohm (via email)

Mayor Gray and Chairman Mendelson
Unemployment Compensation Fund Financial
Statements (with Independent Auditors' Report
Thereon) for FYs 2013 and 2012
OIG No. 14-1-10BH – Final Report
May 19, 2014
Page 3 of 3

The Honorable Barbara Mikulski, Chairwoman, Senate Committee on Appropriations,
Attention: Kali Matalon (via email)
The Honorable Richard Shelby, Ranking Member, Senate Committee on Appropriations,
Attention: Dana Wade (via email)
The Honorable Tom Udall, Chairman, Senate Subcommittee on Financial Services and
General Government, Attention: Marianne Upton (via email)
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and General Government, Attention: Dale Cabaniss (via email)
Mr. Paul Geraty, CPA, Public Sector Audit Division KPMG LLP (1 copy)



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

FINANCIAL STATEMENTS

September 30, 2013 and 2012

(With Independent Auditors' Report Thereon)

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

**FINANCIAL STATEMENTS
SEPTEMBER 30, 2013 and 2012**

(in thousands)

TABLE OF CONTENTS

Independent Auditors' Report.....	1
Management's Discussion and Analysis (unaudited)	3
Basic Financial Statements:	
Statement of Net Position	10
Statement of Revenues, Expenses, and Changes in Net Position	11
Statement 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 Statements 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:

Report on the Financial Statements

We have audited the Statements of Net Position of the Government of the District of Columbia's Unemployment Compensation Fund (the fund) as of September 30, 2013 and 2012, the Statements of Revenues, Expenses and Changes in Net Position and Statements of Cash Flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Fund's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; 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.

Auditors' Responsibility

Our responsibility is to express opinions 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 opinions.



Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective net position of the Fund as of September 30, 2013 and 2012, and the respective changes in fund net position and cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 1, the financial statements referred to above are intended to present the Fund net position and the revenues, expenses and changes in net position of the Fund. As a result, 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, 2013 and September 30, 2012, the changes in its financial position, or its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 3–9, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2014 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 Fund's internal control over financial reporting and compliance.

KPMG LLP

Washington, DC
January 29, 2014

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
UNAUDITED
SEPTEMBER 30, 2013 AND 2012
(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 year (FY) ended September 30, 2013 compared to the fiscal year ended September 30, 2012. 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 federal grants, which are recorded in the District's General Fund.

Financial Statement Presentation

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

■ **Statement of Net Position**

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

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

The Statement of Revenue, Expenses, and Changes in Net Position represent information showing how the Fund's net position has changed during the FY. All changes in the net position are reported as soon as the event underlying the change occurs regardless of 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

The District's average unemployment rate for the FY ended September 30, 2013 was 8.6%, which was a 0.93% decrease compared to 9.53% in FY 2012. The Fund's net position increased by \$12,022 or 5.23% in FY 2013 as compared to a \$7,986 or 3.60% increase in FY 2012.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
UNAUDITED
SEPTEMBER 30, 2013 AND 2012
(in thousands)

Overall Financial Analysis

Summary of Net Position

	2013	2012	Change	2011	Change
Assets					
Cash Held with U.S. Treasury	\$311,814	\$309,802	\$2,012	\$313,190	(\$3,388)
Receivables	<u>21,133</u>	<u>18,012</u>	<u>3,121</u>	<u>17,511</u>	<u>501</u>
Total Assets	<u><u>\$332,947</u></u>	<u><u>\$327,814</u></u>	<u><u>\$5,133</u></u>	<u><u>\$330,701</u></u>	<u><u>(\$2,887)</u></u>
Liabilities					
Payables	\$55,539	\$63,767	(\$8,228)	\$75,656	(\$11,889)
Due to D.C. Government	<u>35,456</u>	<u>34,117</u>	<u>1,339</u>	<u>33,101</u>	<u>1,016</u>
Total Liabilities	<u><u>\$90,995</u></u>	<u><u>\$97,884</u></u>	<u><u>(\$6,889)</u></u>	<u><u>\$108,757</u></u>	<u><u>(\$10,873)</u></u>
Net Position					
Restricted for Unemployment					
Compensation Benefits	<u><u>\$241,952</u></u>	<u><u>\$229,930</u></u>	<u><u>\$12,022</u></u>	<u><u>\$221,944</u></u>	<u><u>\$7,986</u></u>

- The Fund's largest asset is the cash held with U.S. Treasury, which represented 93.65 % of the Fund's total assets. The FY 2013 cash balance increased by \$2,012 or 0.65% as a result of the cash receipts from employer taxes and governmental agencies exceeding the unemployment benefits payments. The FY 2012 cash balance decreased by \$3,388 or 1.08% from FY 2011.
- For FY 2013 receivables, net of allowance for doubtful accounts, increased by \$3,121 or 17.33% as a result of increase in federal receivables. 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 2012, there was a net increase in receivables of \$501 or 2.86% from FY 2011.
- The Fund's total liabilities for FY 2013 decreased by \$6,889 or 7.04% as compared to a decrease of \$10,873 or 10.00% in FY 2012. Amounts due to claimants for unemployment benefits comprise a major portion of the payables. For FY 2013, claimants payable estimated at \$43,950 decreased by \$8,450 or 16.13% in comparison to FY 2012 as a result of a decline in the unemployment rate. For FY 2012, claimants' payable was estimated at \$52,400 and decreased by \$8,741 or 14.30% from FY 2011.
- Due to D.C. Government represents amounts owed to the District for unemployment benefits, employer tax refunds paid on behalf of the Fund and unspent Reed Act funds. For FY 2013, the Fund's payables to DC Government increased by \$1,339 or 3.92% as compared to September 30, 2012. At September 30, 2013, the unspent Reed Act funds totaled \$27,669 compared to \$31,212 at September 30, 2012. The Reed Act fund was received from the Federal government through the Reed Act Account to pay for the trust fund's administrative costs other than benefit payments.
- For FY 2013, the Fund's current assets of \$332,947 were sufficient to cover current liabilities of \$90,995, a ratio of \$3.66 dollars in assets for every dollar in liabilities. For FY 2012, the total current assets and current liabilities of the Fund were \$ 327,814 and \$97,884 respectively; a ratio of \$3.35 in assets for every dollar in liabilities.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
UNAUDITED
SEPTEMBER 30, 2013 AND 2012
(in thousands)

Summary of Revenues, Expenses, and Changes in Net Position

	2013	2012	Change	2011	Change
Operating Revenues:					
Employer Taxes	\$131,025	\$133,618	(\$2,593)	\$128,876	\$4,742
Governmental Contributions	32,790	27,945	4,845	35,329	(7,384)
Total Operating Revenues	<u>\$163,815</u>	<u>\$161,563</u>	<u>\$2,252</u>	<u>\$164,205</u>	<u>(\$2,642)</u>
Expenses:					
Unemployment Benefits	<u>\$255,645</u>	<u>\$344,913</u>	<u>(\$89,268)</u>	<u>\$409,920</u>	<u>(\$65,007)</u>
Operating Loss	(\$91,830)	(\$183,350)	\$91,520	(\$245,715)	\$62,365
Non-operating Revenues:					
Interest Revenue	\$7,691	\$8,495	(\$804)	\$11,743	(\$3,248)
Federal Contributions	96,161	182,552	(\$86,392)	222,620	(40,068)
Other Revenue	-	289	(\$289)	-	(\$289)
Total Non-operating Revenues	<u>\$103,852</u>	<u>\$191,336</u>	<u>(\$87,485)</u>	<u>\$234,363</u>	<u>(\$43,027)</u>
Change in Net Position	\$12,022	\$7,986	\$4,036	(\$11,352)	\$19,338
Total Net Position - Beginning	<u>229,930</u>	<u>221,944</u>	<u>\$7,986</u>	<u>233,296</u>	<u>(11,352)</u>
Total Net Position - Ending	<u>\$241,952</u>	<u>\$229,930</u>	<u>\$12,022</u>	<u>\$221,944</u>	<u>\$7,986</u>

Revenues

In FY 2013, the Fund's operating revenue totaled \$163,815 compared to \$161,563 in FY 2012. In FY 2011 the total operating revenue was \$164,205. Operating revenues increased by 1.39% from FY 2012 to FY 2013 and decreased by 1.61% from FY 2011 to FY 2012. This was due to an increase in governmental contributions as the number of former employees filing for unemployment benefits decreased and a decrease in revenue received from employers. Federal and other governments reimburse the Fund 100% for benefits paid to their former employees. Operating revenue was derived primarily from employer taxes.

Revenues from all sources (operating and non-operating) totaled \$267,667 in FY 2013 compared to \$352,899 for FY 2012 and \$398,568 for FY 2011. The schedule below shows sources of operating revenues for the Fund in FY 2013 and 2012:

<u>Revenue Source</u>	<u>FY 2013</u>	<u>FY 2012</u>	<u>Change</u>	<u>% change</u>
Employer Taxes	\$131,025	\$133,618	(\$2,593)	(1.94%)
Other States' Contribution	5,464	7,034	(1,570)	(22.32%)
Federal Government Reimbursement	19,658	8,708	10,950	125.75%
Reimbursement from the District Government	7,668	12,203	(4,535)	(37.16%)
Total	<u>\$163,815</u>	<u>\$161,563</u>	<u>\$2,252</u>	<u>1.39%</u>

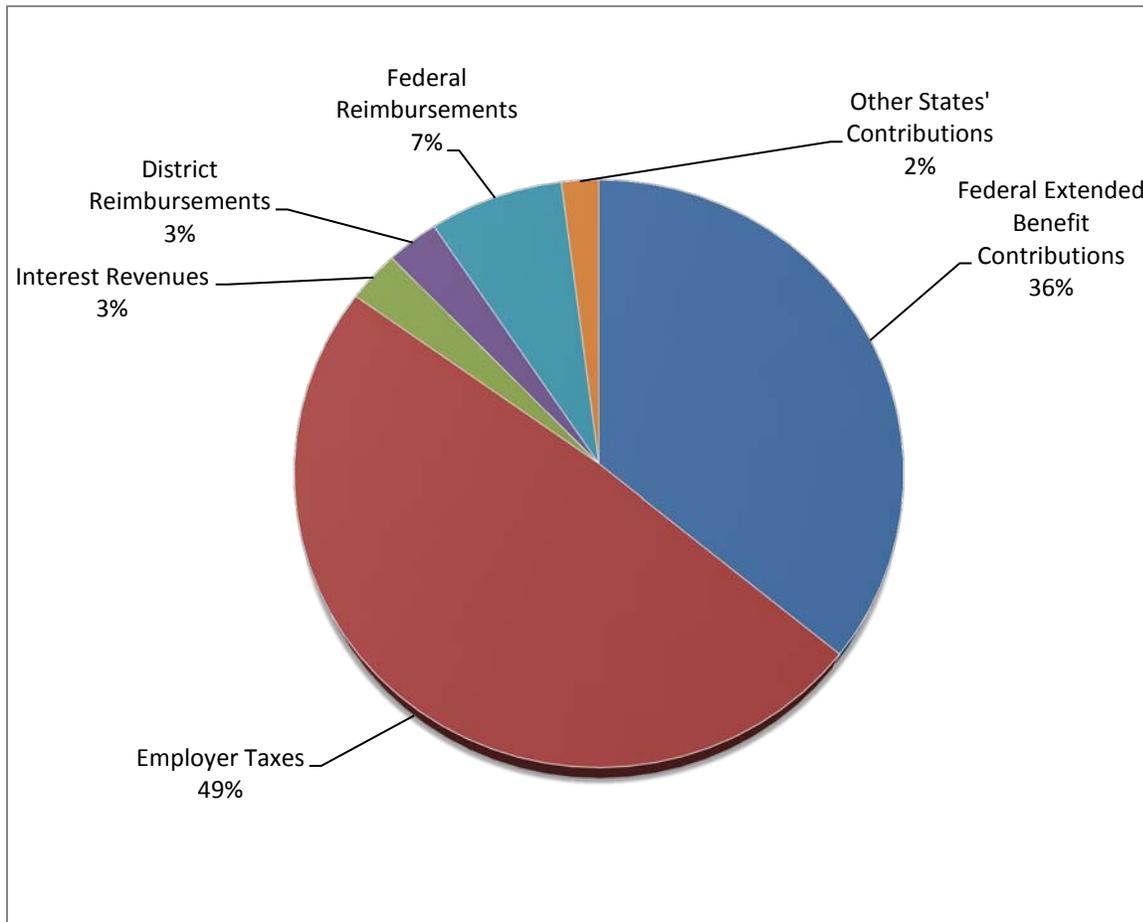
**GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
UNAUDITED
SEPTEMBER 30, 2013 AND 2012
(in thousands)

In FY 2013, the Fund's sources of non-operating revenue consisted of interest income of \$7,691, Federal extended benefits of \$96,157 and Federal stimulus contribution of \$4. Total non-operating revenue for FY 2012 consisted of interest income of \$8,495, extended benefits of \$182,538, Federal stimulus contribution of \$14 and other revenue of \$289. Total non-operating revenue in FY 2013 was \$103,852 compared to \$191,336 in FY 2012. 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. In addition during FY 2013, federal budget sequestration and a change in the number of Extended Unemployment Compensation (EUC) payable weeks from 73 weeks to 37 weeks reduced related federal benefits contributions.

Figures 1 and 2 show the percentage of revenues received from the Fund's different sources during FY 2013 and FY 2012. In FY 2013 the largest source of revenue was from the taxes paid by employers which represents 49% of total revenues whereas the Federal government payments for temporary and extended unemployment compensation (TEUC) accounted for 52% of the total revenues in FY 2012.

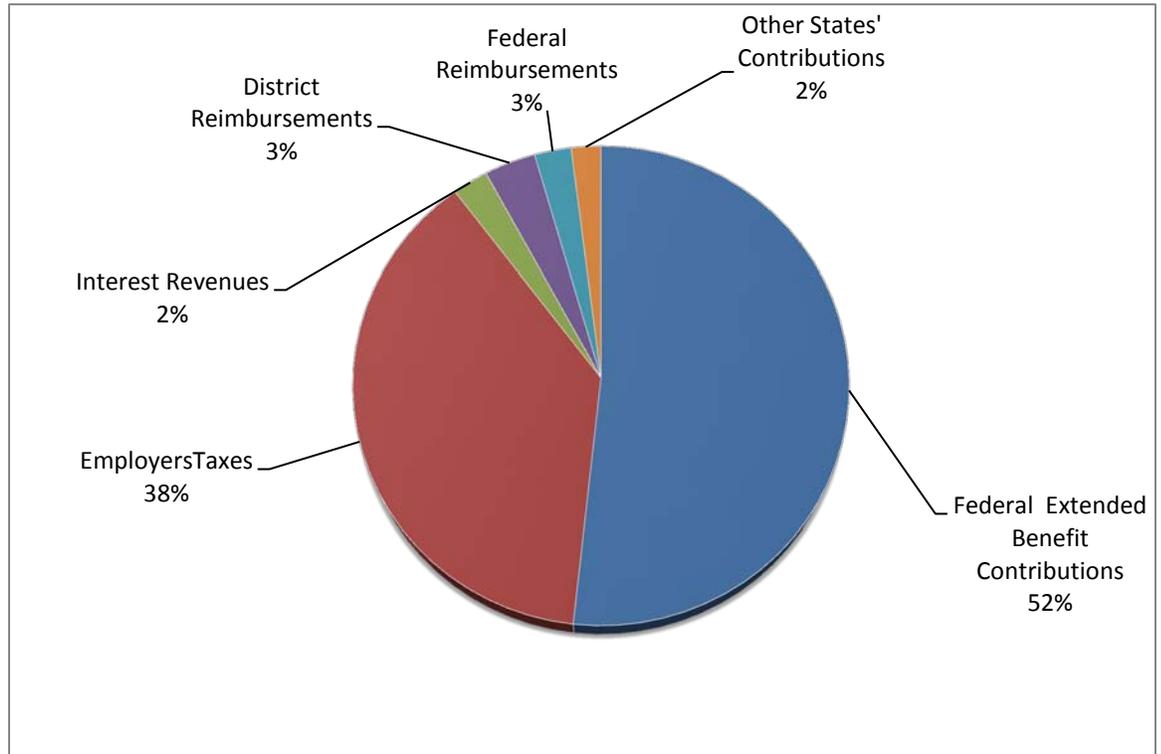
Figure 1: Total Revenues (Operating and Non-Operating) for the Year Ended September 30, 2013



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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
UNAUDITED
SEPTEMBER 30, 2013 AND 2012
(in thousands)

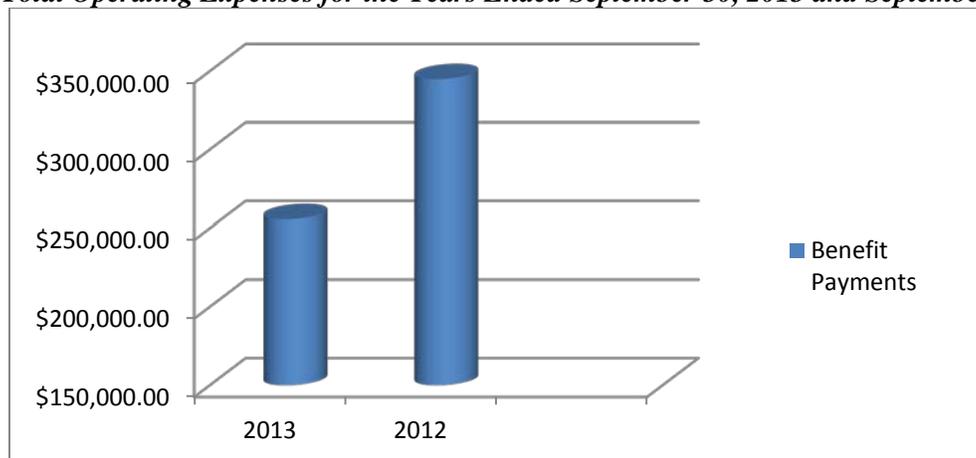
Figure 2: Total Revenues (Operating and Non-Operating) for the Year Ended September 30, 2012



Expenses

The Fund's only operating expense is unemployment benefit payments. Figure 3 shows the comparison of benefits payments in FY 2013 and FY 2012.

Figure 3: Total Operating Expenses for the Years Ended September 30, 2013 and September 30, 2012



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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
UNAUDITED
September 30, 2013 AND 2012
(in thousands)

In FY 2013, the Fund's unemployment benefits (payments) decreased by \$89,268 or 25.88% as compared to a decrease of \$65,007 or 15.86% in FY 2012. The drop in benefits payments can be attributed to a decline in the overall average unemployment rate of approximately 0.93% and the reduction of federal extended benefits.

Figure 4: Shows District's unemployment rate by month for the year ended September 30, 2013

FY 2013 Average Unemployment Rate					8.6%
Current Year	Month	Labor Force	Number of Employed	Number of Unemployed	Unemployment Rate (%)
2012	Oct	367,771	336,010	31,761	8.6
2012	Nov	369,320	337,835	31,485	8.5
2012	Dec	370,717	339,422	31,295	8.4
2013	Jan	372,240	340,227	32,013	8.6
2013	Feb	373,130	340,941	32,189	8.6
2013	Mar	373,138	341,229	31,909	8.6
2013	Apr	372,468	340,933	31,535	8.5
2013	May	372,177	340,562	31,615	8.5
2013	Jun	371,714	340,057	31,657	8.5
2013	Jul	369,356	337,536	31,820	8.6
2013	Aug	364,673	332,988	31,685	8.7
2013	Sept	363,784	332,442	31,342	8.6

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)
UNAUDITED
September 30, 2013 AND 2012
(in thousands)

Figure 5: Shows District's unemployment rate by month for the year ended September 30, 2012

FY 2012 Average Unemployment Rate					9.53%
Current Year	Month	Labor Force	Employment	Number of Unemployed	Unemployment Rate (%)
2011	Oct	343,911	308,525	35,386	10.3
2011	Nov	344,622	309,541	35,081	10.2
2011	Dec	345,328	310,557	34,771	10.1
2012	Jan	346,567	312,157	34,410	9.9
2012	Feb	347,810	313,554	34,256	9.8
2012	Mar	348,625	314,489	34,136	9.8
2012	Apr	349,685	316,431	33,254	9.5
2012	May	352,149	319,283	32,866	9.3
2012	Jun	354,112	321,954	32,158	9.1
2012	Jul	353,809	322,148	31,661	8.9
2012	Aug	354,020	322,847	31,173	8.8
2012	Sep	357,296	326,388	30,908	8.7

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

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 POSITION
SEPTEMBER 30, 2013 AND 2012
(in thousands)

	<u>2013</u>	<u>2012</u>
Current Assets:		
Cash Held With U.S. Treasury (note 2)	\$311,814	\$309,802
Accounts Receivable, Net (note 3)	10,923	17,688
Due From Federal Government (note 4)	<u>10,210</u>	<u>324</u>
Total Current Assets	<u>\$332,947</u>	<u>\$327,814</u>
Current Liabilities:		
Accounts Payable (note 5)	\$11,589	\$11,367
Claimants Payable (note 6)	43,950	52,400
Due To D.C. Government (note 7)	<u>35,456</u>	<u>34,117</u>
Total Current Liabilities	<u>\$90,995</u>	<u>\$97,884</u>
Net Position:		
Restricted for Unemployment Compensation Benefits	<u>\$241,952</u>	<u>\$229,930</u>

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 POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2013 AND 2012
(in thousands)

	<u>2013</u>	<u>2012</u>
Operating Revenues:		
Employer Taxes	\$131,025	\$133,618
Other States' Contributions	5,464	7,034
Federal Reimbursements	19,658	8,708
District Reimbursements	<u>7,668</u>	<u>12,203</u>
Total Operating Revenues	<u>\$163,815</u>	<u>\$161,563</u>
Operating Expenses:		
Unemployment Benefits	<u>255,645</u>	<u>344,913</u>
Total Operating Expenses	<u>\$255,645</u>	<u>\$344,913</u>
Operating Loss	(\$91,830)	(\$183,350)
Non-operating Revenues:		
Federal Extended Benefit Contributions	\$96,157	\$182,538
Interest Revenues	7,691	8,495
Federal Stimulus Contributions	4	14
Other Revenue	<u>-</u>	<u>289</u>
Total Non-Operating Revenues	<u>\$103,852</u>	<u>\$191,336</u>
Change in Net Position	\$12,022	\$7,986
Total Net Position – Beginning	<u>229,930</u>	<u>221,944</u>
Total Net Position - Ending	<u>\$241,952</u>	<u>\$229,930</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, 2013 AND 2012
(in thousands)

	<u>2013</u>	<u>2012</u>
Cash Flows from Operating Activities:		
Cash Receipts from Employers	\$137,790	\$132,944
Cash Receipts from Federal Government	9,772	8,881
Cash Receipts from District Government	7,668	12,203
Cash Receipts from Other States	5,464	7,034
Cash Payments for Other Liabilities	1,561	-
Cash Payments to Claimants	<u>(\$264,095)</u>	<u>(\$355,497)</u>
Net Cash Used in Operating Activities	<u>(\$101,840)</u>	<u>(\$194,435)</u>
 Cash Flows from Investing Activities:		
Interest Income Received	<u>7,691</u>	<u>8,495</u>
Net Cash Provided by Investing Activities	<u>\$7,691</u>	<u>\$8,495</u>
 Cash Flows from Noncapital Financing Activities:		
Federal Extended Benefit Contributions	\$96,157	\$182,538
Federal Stimulus Contributions	<u>4</u>	<u>14</u>
Net Cash Provided by Noncapital Financing Activities	<u>\$96,161</u>	<u>\$182,552</u>
 Net Increase/(Decrease) in Cash	\$2,012	(\$3,388)
 Cash, Beginning of Year	<u>\$309,802</u>	<u>\$313,190</u>
 Cash, Ending of Year	<u><u>\$311,814</u></u>	<u><u>\$309,802</u></u>
 Reconciliation of Operating Loss to Net Cash Used in Operating Activities:		
Operating Loss	(\$91,830)	(\$183,350)
Other Revenue	-	289
Decrease/(Increase) in Assets:		
Receivables	6,765	(674)
Due from Federal Government	(9,886)	173
(Decrease) in Liabilities:		
Payables	<u>(6,889)</u>	<u>(10,873)</u>
Net Cash Used in Operating Activities	<u><u>(\$101,840)</u></u>	<u><u>(\$194,435)</u></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, 2013 AND 2012
(in thousands)

NOTE 1 NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities: Pursuant to Federal law, the Government of the District of Columbia (the District) maintains an Unemployment Compensation Fund (the Fund). The Fund pays up to 26 weeks of regular statutory benefits to eligible unemployed former employees of the District of Columbia or the Federal government. The Fund currently pays 37 additional weeks of emergency benefits to eligible claimants who have exhausted their regular 26 weeks of benefits under a federal reimbursement program.

The Fund's 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 September 30, 2008 and has been modified several times and extended to December 28, 2013. The extended benefits payments beyond the 26 weeks base period have to be authorized by the Federal Government. When this happens, the states are reimbursed by the Federal Government to cover the benefits. During FY 2012 the Federal Government had authorized 73 additional weeks of benefits which was reduced to 37 additional weeks of benefits effective March 1, 2013. 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.

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

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013 AND 2012
(in thousands)

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

Use of Estimates: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities 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 for the years ended September 30, 2013 and 2012 was \$7,691 and \$8,495 respectively. At September 30, 2013, cash held at the Treasury was \$311,814 compared to \$309,802 at September 30, 2012.

NOTE 3 ACCOUNTS RECEIVABLE, NET

The Fund's accounts receivables consists of the following at September 30, 2013 and 2012 (in thousands):

	2013	2012
Employer Receivables	\$ 12,541	\$ 9,901
Claimant Receivables	14,831	18,432
Due from Other Funds/States	4,608	4,229
Total Receivables	31,980	32,562
Less: Allowance for Doubtful Accounts	(21,057)	(14,874)
Accounts Receivable, Net	\$ 10,923	\$ 17,688

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

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

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013 AND 2012
(in thousands)

NOTE 4 DUE FROM FEDERAL GOVERNMENT

As of September 30, 2013 the amount due from the federal government for extended benefits is \$10,210 as compared to \$324 on September 30, 2012.

NOTE 5 ACCOUNTS PAYABLE

At September 30, 2013 and 2012, 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.

	2013	2012
Employer Tax Refund Payable	\$4,581	\$4,258
Income Tax Payable	438	244
Due to Other States	3,548	3,690
Others	3,022	3,175
Total Accounts Payable	\$11,589	\$11,367

NOTE 6 CLAIMANTS PAYABLE

Claimants Payables are estimated amounts due to claimants for the remaining periods of eligibility that are payable in the following period. The Claimant Payables as of September 30, 2013 and 2012 were \$43,950 and \$52,400 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, 2013 and 2012 are \$35,456 and \$34,117 respectively.

NOTE 8 COMMITMENTS AND CONTINGENCIES

As at September 30, 2013, there were no matters of litigation involving the Unemployment Compensation Trust Fund which would materially affect the Unemployment Trust Fund’s financial position should any court decisions on pending matters not be favorable to the Fund. Ongoing matters from FY 2012 relating to withholding tax issues with IRS involving the Unemployment Compensation Trust Fund for the amount of \$171 were resolved and this amount was fully paid from the District’s funds.



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, in accordance with the 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 Government of the District of Columbia's Unemployment Compensation Fund (the Fund) as of and for the year ended September 30, 2013 and 2012, and have issued our report thereon dated January 29, 2014.

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 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 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 that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The



results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

KPMG LLP

Washington, DC
January 29, 2014