

**Report 15-8  
July 2015**

# **Unemployment Reserve Fund**

*Department of Workforce Development*

STATE OF WISCONSIN



Legislative Audit Bureau ■



# **Unemployment Reserve Fund**

*Department of Workforce Development*

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From the Department of Workforce Development	





STATE OF WISCONSIN

# Legislative Audit Bureau

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Joe Chrisman  
State Auditor

July 1, 2015

Senator Robert Cowles and  
Representative Samantha Kerkman, Co-chairpersons  
Joint Legislative Audit Committee  
State Capitol  
Madison, Wisconsin 53702

Dear Senator Cowles and Representative Kerkman:

To help fulfill our audit responsibilities under s. 13.94, Wis. Stats., and at the request of the Department of Workforce Development (DWD), we have audited the financial statements of the State of Wisconsin Unemployment Reserve Fund, which accounts for regular unemployment benefits paid to eligible individuals and is funded primarily through taxes paid by employers. During the period we reviewed, certain other benefits, such as emergency unemployment benefits, were funded by the federal government. This audit report contains our unmodified opinion on the Unemployment Reserve Fund's financial statements and related notes for the fiscal years ended June 30, 2014, and June 30, 2013.

During fiscal year (FY) 2013-14, the Fund's net position increased from negative \$208.4 million as of June 30, 2013, to \$329.4 million as of June 30, 2014, or by \$537.8 million. This was the first positive fiscal year-end balance since the end of FY 2007-08. Because of the improved condition, the Fund was able to temporarily repay a federal loan in May 2014. The Fund borrowed again in July 2014. However, this borrowing was repaid by the end of July 2014. The Fund has not borrowed from the federal government since July 2014. Although the Fund's net position has increased, we recommend DWD continue to work with the Unemployment Insurance Advisory Council and take steps to further improve the Fund's net position.

Accompanying the financial statements is the Schedule of Cash Balance Related to Taxable Employers, which is used to determine the state unemployment tax rate paid by employers. Section 108.18(3m), Wis. Stats., requires the highest tax rate schedule to be applied when the Fund's cash balance is less than \$300 million as of June 30 of the preceding year. Because the cash balance continued to be less than \$300 million as of June 30, 2014, the highest tax rate schedule applies in calendar year 2015.

We appreciate the courtesy and cooperation extended to us by DWD staff. A response from DWD follows our report.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Joe Chrisman".

Joe Chrisman  
State Auditor

JC/BN/ss





## Introduction ■

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***The Unemployment Insurance program provides benefits to eligible individuals who become unemployed.***

Wisconsin's Unemployment Insurance program was enacted in 1932 and was the first such program in the United States. The program, which is accounted for in the Unemployment Reserve Fund, is managed by the Department of Workforce Development (DWD) and temporarily provides benefits to replace a portion of wages lost when individuals become unemployed and meet certain eligibility requirements. Administrative costs of the Unemployment Insurance program are funded primarily by federal grants that are accounted for in the State's General Fund.

Wisconsin Statutes created the Unemployment Insurance Advisory Council (UIAC) to advise DWD on matters related to unemployment insurance and make recommendations for changes to the Legislature. The UIAC consists of five employer and five employee representatives who serve six-year terms and are appointed by the Secretary of DWD. The Secretary also appoints a DWD employee to serve as the non-voting chairperson.

During the period we reviewed, various types of unemployment benefits were available to eligible individuals. Regular unemployment benefits were funded primarily by employer-paid taxes that were deposited to the Unemployment Reserve Fund. Certain other benefits, such as emergency unemployment benefits, were funded by the federal government.

## Employer Taxes

Each employer has an account within the Unemployment Reserve Fund. Employers are subject to a basic tax and a solvency tax that together constitute their total state unemployment insurance tax.

The basic tax is credited to each employer's account and is based on each employer's unemployment experience rating. For example, employers with more employee layoffs pay more basic taxes than those with fewer layoffs. The solvency tax is credited to the Fund's solvency account and is based on each employer's unemployment experience rating, payroll size, and account balance. The solvency account is used to pay benefits that by state law cannot be charged to an employer's account, such as unemployment benefits for unemployed workers of a bankrupt employer.

***The highest unemployment insurance tax rate schedule is in effect for calendar year 2015.***

Wisconsin Statutes include four unemployment insurance tax rate schedules. The highest tax rate schedule, which is in effect for calendar year 2015, is used when the Fund's cash balance is less than \$300 million as of June 30 of the preceding year. The lowest tax rate schedule applies when the Fund's cash balance as of June 30 of the preceding year exceeds \$1.2 billion. Unemployment insurance tax rates are applied to each employee's wages up to the taxable wage base established in statutes. Wisconsin's taxable wage base was \$10,500 from 1986 to 2008. As part of a plan to improve the financial condition of the Fund, the taxable wage base was increased to \$12,000 for 2009 and 2010, to \$13,000 for 2011 and 2012, and to \$14,000 for 2013 and future years.

## Unemployment Benefits

***Federally funded emergency benefits expired on December 28, 2013.***

From July 2012 until September 2013, it was possible for eligible individuals to receive unemployment benefits for up to 70 weeks, which included 26 weeks of regular unemployment benefits and 44 weeks of federally funded emergency benefits. In September 2013, nine weeks of the federally funded emergency benefits expired because of declines in Wisconsin's unemployment rate. Under federal law, the remaining federally funded emergency benefits expired on December 28, 2013. Currently, eligible individuals may receive 26 weeks of regular unemployment benefits. However, not all unemployed individuals, such as those with a minimal prior work history, are eligible to receive unemployment benefits.

***The average weekly regular unemployment benefit payment was \$285 in 2014.***

From January 2009 through December 2013, the minimum weekly regular unemployment benefit payment was \$54 and the maximum payment was \$363. Effective January 5, 2014, 2013 Wisconsin Act 36 increased the maximum weekly payment to \$370, but no change was

made to the minimum payment. Benefit recipients received an average weekly regular benefit payment of \$276 in 2013 and \$285 in 2014.

As we described in report 14-15, unemployed individuals may file their initial benefit claim applications through an automated telephone system, online, or by contacting one of two call centers operated by DWD. DWD verifies the information provided in order to establish the eligibility of individuals and the amounts of weekly benefits to pay. Subsequently, eligible individuals file weekly benefit claims either by telephone or online. Eligible individuals must generally be available to work and must certify that they are searching for work. 2013 Wisconsin Act 20 increased the work-search requirements from two to at least four reasonable search actions for suitable work during a week of unemployment. A reasonable work-search action is defined by administrative rule, and may include submitting a job application to a suitable employer, registering with a placement agency, or participating in employment workshops. Although DWD may request documentation at any time, eligible individuals are not typically required to submit work-search documentation. 2013 Wisconsin Act 36 created the requirement for DWD to conduct random audits of claimants' weekly work-search actions.

## Financial Position

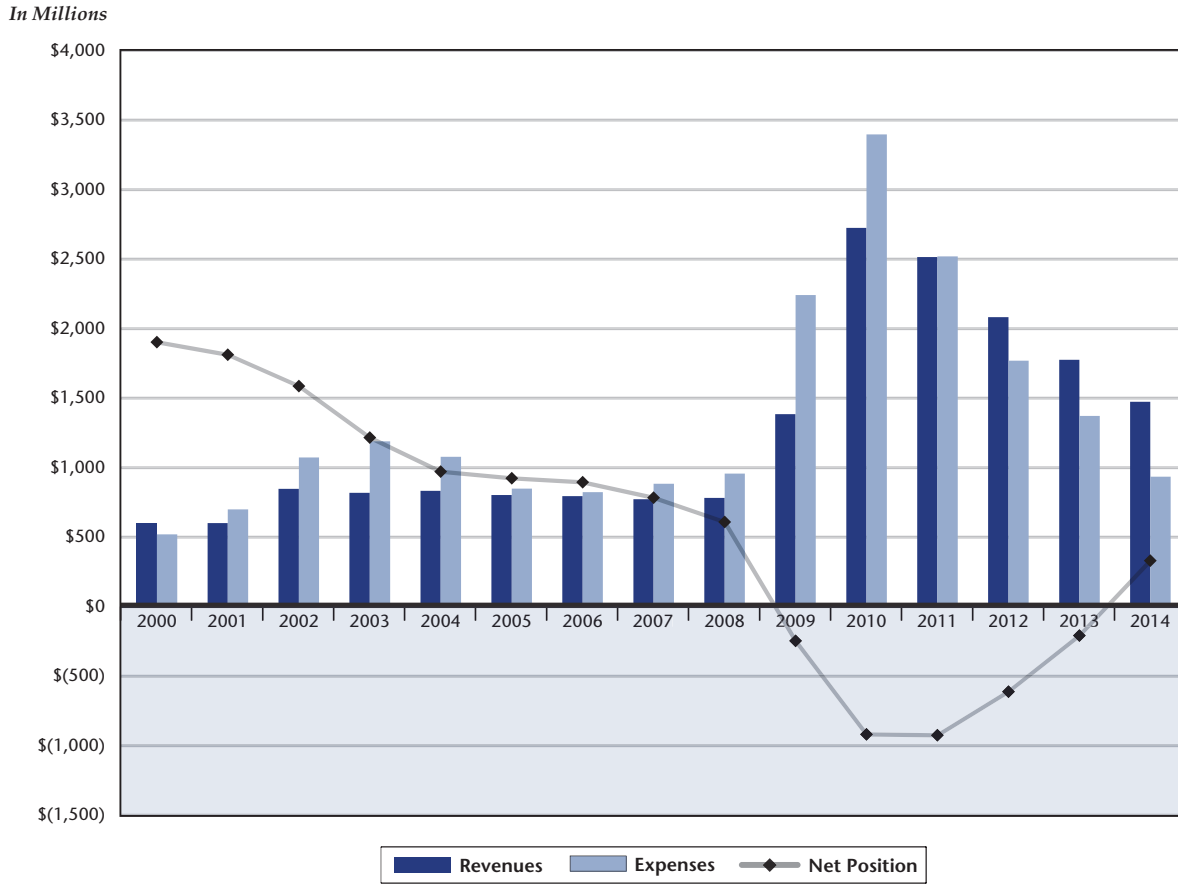
Programs established for unemployment purposes are intended to accumulate resources during periods of low unemployment to ensure funds are sufficient to pay benefits during periods of high unemployment. However, as shown in Figure 1, the net position of Wisconsin's Unemployment Reserve Fund has declined during both times of high and low unemployment because benefit payments and transfers exceeded employer taxes and other revenues. Steps taken to improve the net position of the Fund include increasing the taxable wage base and implementing a one-week waiting period.

***Beginning in FY 2011-12, the net position of the Fund has increased.***

Due, in part, to the increased taxable wage base, the net position of the Fund increased beginning in fiscal year (FY) 2011-12. The improved net position is also due, in part, to additional revenues from assessments made by the federal government because the Fund's cash balance was negative. Finally, the Fund's net position was also affected by a decrease in employer-funded benefits due to a decline in the unemployment rate and the exhaustion of regular benefits for some individuals.

Figure 1

**Unemployment Reserve Fund Revenues, Expenses, and Net Position<sup>1</sup>**  
 For Fiscal Year Ended June 30



<sup>1</sup> Revenues include employer taxes, Federal Unemployment Tax Act credit reduction, investment earnings, and federal funds received for certain benefits. Expenses include benefits paid to unemployed individuals and transfers to other funds.

***The U.S. Department of Labor recommends that states have sufficient reserves to sustain 12 months of benefit payments.***

The U.S. Department of Labor recommends that states have sufficient reserves to sustain 12 months of benefit payments estimated using specified criteria. For Wisconsin, DWD staff indicate this amount is approximately \$1.6 billion for 2014. Although the sum of all employer accounts had a total positive balance of \$1.7 billion for 2014, the solvency account had a negative balance of \$1.4 billion. As shown in Table 1, the balances of the employer accounts, the solvency account, and certain restricted accounts sum to the Fund’s net position, which was \$329.4 million as of June 30, 2014. Therefore, addressing the negative balance in the solvency account would help align the Fund’s net position with the recommendations of the U.S. Department of Labor.

Table 1  
**Unemployment Reserve Fund Net Position**  
 As of June 30  
 (in millions)

Account	2014	2013	Change	2012	Change
Employer Accounts	\$ 1,733.3	\$ 1,416.7	\$316.6	\$ 1,108.1	\$308.6
Solvency Account	(1,406.5)	(1,631.1)	224.6	(1,731.1)	100.0
Restricted Accounts <sup>1</sup>	2.6	6.0	(3.4)	10.6	(4.6)
<b>Fund Net Position</b>	<b>\$ 329.4</b>	<b>\$ (208.4)</b>	<b>\$537.8</b>	<b>\$ (612.4)</b>	<b>\$404.0</b>

<sup>1</sup> A portion of the Fund's net position has been restricted for administration of the unemployment insurance law and employment services.

***Certain unemployment benefit payments are charged to the solvency account rather than to an employer's account.***

The solvency account is used to account for employer solvency taxes, investment earnings, and unemployment benefit payments that, by state law, cannot be charged to an employer's account. These payments include:

- unemployment benefit payments related to bankrupt employers;
- unemployment benefit payments related to an employee who is in an approved training program;
- unemployment benefit payments related to an employee who lost his or her occupational license and is unable to perform job duties; and
- unemployment benefit payments related to an employee who quit for certain specified reasons.

In addition, Wisconsin Statutes provide that certain unemployment benefit expenses initially charged to an employer's account are subsequently transferred to the solvency account if the employer's account balance is negative by more than 10 percent of the employer's taxable payroll. As shown in Table 2, benefit expenses transferred from employers' accounts to the solvency account can be significant, especially during times of high unemployment. These transfers peaked at \$497.8 million in FY 2010-11 and were \$113.9 million in FY 2014-15.

Table 2

**Benefit Expenses Transferred from Employers' Accounts  
to the Solvency Account**  
(in millions)

Fiscal Year <sup>1</sup>	Amount
2008-09	\$194.7
2009-10	407.0
2010-11	497.8
2011-12	293.7
2012-13	199.1
2013-14	171.7
2014-15	113.9 <sup>2</sup>

<sup>1</sup> Transfers typically occur in the fall of each year.

<sup>2</sup> Unaudited.

Employers who benefit from these transfers are typically those that have frequent layoffs, such as those that have seasonal employment. There is no limit for any employer related to the amount of the transfers or the number of years in which the transfers may occur.

Some steps have been taken to improve the balance of the solvency account. For example, 2013 Wisconsin Act 20 included provisions to amend the tax tables so that employers with higher negative account balances have higher tax rates. The higher tax rates contribute more to the employers' accounts and, therefore, reduce the benefit expenses that are transferred to the solvency account if an employer's account balance is negative by more than 10 percent of the employer's taxable payroll. Act 20 also included provisions to remove and modify some of the specified reasons employees who quit their employment qualify for benefit payments. With these changes, fewer benefit payments will be charged to the solvency account. However, these steps are not anticipated to have a significant impact on the balance of the solvency account.

The balance in the solvency account increased in both FY 2012-13 and FY 2013-14 primarily due to the additional unemployment taxes assessed by the federal government when the Fund's cash balance was negative. These additional taxes, which are technically a reduction in a credit related to federal unemployment taxes, totaled

\$95.6 million and \$147.3 million in FY 2012-13 and FY 2013-14, respectively. However, since the Fund's cash balance is currently positive, employers are no longer subject to the additional taxes. Therefore, this revenue source will not be available in future years to increase the balance in the solvency account, and there is the potential for the balance to decrease again.

In June 2013, the UIAC created a Trust Fund Solvency Subcommittee charged with proposing sustainable funding solutions for the solvency account. The subcommittee identified several options in April 2014, but did not reach a consensus on which options to present to the UIAC. DWD staff indicated that from May 2014 through May 2015, the subcommittee was not active.

## Federal Borrowing

***The federal loan was fully repaid in July 2014.***

When the Unemployment Reserve Fund was depleted in February 2009, the Fund began to borrow from the federal government. In May 2014, the outstanding loan balance was temporarily repaid. However, because the Fund's cash balance fluctuates depending on the timing of employer tax payments, additional borrowing was needed in July 2014 until second-quarter tax payments were received at the end of July. These receipts allowed the loan to be fully repaid, and the cash balance has remained positive since the repayment in July. Based on projections through 2017, DWD staff indicated it is unlikely the Fund will need to borrow again.

***As permitted by 2013 Wisconsin Act 20, the State spent a total of \$24.8 million in general purpose revenue for interest payments in FY 2013-14 and FY 2014-15.***

Under current federal rules, interest accrues on any outstanding loan balance and is due each year on September 30. Federal rules prohibit using the Fund's resources to pay the interest on federal loans. To pay the interest, the State made special assessments on employers in August 2011 and August 2012, as allowed by s. 108.19 (1m), Wis. Stats. 2013 Wisconsin Act 20 included provisions to use general purpose revenue for interest payments in FY 2013-14 and FY 2014-15. Since 2011, total interest payments on the federal loan equaled \$102.9 million, including \$78.1 million funded from special assessments on employers and \$24.8 million funded from general purpose revenue, as shown in Table 3. Because no federal borrowing is anticipated during 2015, no interest is expected to be due on September 30, 2015.

Table 3

**Interest Payments to the Federal Government**  
As of September 30  
(in millions)

Year <sup>1</sup>	Amount	Source
2011	\$ 42.3	Special Assessments
2012	35.8	Special Assessments
Subtotal	78.1	
2013	18.9	General Purpose Revenue
2014	5.9	General Purpose Revenue
Subtotal	24.8	
<b>Total</b>	<b>\$102.9</b>	

<sup>1</sup> No interest was owed in 2009 and 2010 because the federal government waived interest as part of the American Recovery and Reinvestment Act.

To help avoid future federal borrowing and associated interest payments that must be paid from sources such as special assessments on employers or general purpose revenue, DWD should take steps to further improve the Fund's net position.

**Recommendation**

*We recommend the Department of Workforce Development continue to work with the Unemployment Insurance Advisory Council and take steps to further improve the net position of the Unemployment Reserve Fund.*

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## **Audit Opinion ■**

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## Independent Auditor's Report on the Financial Statements and Other Reporting Required by *Government Auditing Standards*

Senator Robert Cowles and  
Representative Samantha Kerkman, Co-chairpersons  
Joint Legislative Audit Committee

Mr. Reginald Newson, Secretary  
Department of Workforce Development

### Report on the Financial Statements

We have audited the accompanying financial statements and the related notes of the Unemployment Reserve Fund of the State of Wisconsin as of and for the years ended June 30, 2014, and June 30, 2013, as listed in the table of contents.

#### Management's Responsibility for the Financial Statements

Management of the Unemployment Reserve Fund 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*, which is 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 the 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 opinion on these financial statements.

### **Opinion**

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Unemployment Reserve Fund as of June 30, 2014, and June 30, 2013, and the respective changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As discussed in Note 1 to the financial statements, the financial statements referred to in the first paragraph present only the Unemployment Reserve Fund and do not purport to, and do not, present fairly the financial position of the State of Wisconsin as of June 30, 2014, and June 30, 2013, the changes in its financial position, or where applicable, its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### **Other Matters**

Our audits were conducted for the purpose of forming an opinion on the financial statements of the Unemployment Reserve Fund. The Schedule of Cash Balance Related to Taxable Employers on page 37 is presented for purposes of additional analysis and is not a required part of the financial statements. This cash balance is used to determine the unemployment tax rate schedule to be used during the following calendar year. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion the information is fairly stated in all material respects in relation to the financial statements as a whole.

The supplementary information included as Management's Discussion and Analysis on pages 17 through 24 is presented for purposes of additional analysis and is not a required part of the financial statements. We have applied certain limited procedures to the information that included inquiries of management about the methods of preparing the information. We further compared the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. However, 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 do so.

### Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated June 22, 2015, on our consideration of the Unemployment Reserve Fund's internal control over financial reporting; our tests of its compliance with certain provisions of laws, regulations, and contracts; and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be used when considering the Unemployment Reserve Fund's internal control over financial reporting and compliance.

LEGISLATIVE AUDIT BUREAU



Joe Chrisman  
State Auditor

June 22, 2015



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# Management's Discussion and Analysis ■

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## *Prepared by Management of the Unemployment Reserve Fund*

Management's Discussion and Analysis provides users of the State of Wisconsin Unemployment Reserve Fund's financial statements with an overview of the statements and an analysis of the Fund's financial performance during the fiscal years ended June 30, 2013, and June 30, 2014. The financial statements, notes, and this discussion are the responsibility of management of the Fund.

### **Financial Summary (Highlights)**

The assets of the Unemployment Reserve Fund exceeded liabilities at the close of fiscal year (FY) 2013-14 by approximately \$329.4 million. With the exception of \$2.6 million in certain federal allocations, the Fund's net position, if positive, can be used only to pay unemployment benefits to eligible unemployed persons.

The Fund's net position increased by \$941.8 million during the two-year period from July 1, 2012, through June 30, 2014. Benefits paid to unemployed workers decreased each fiscal year compared to the previous year. State unemployment taxes paid by employers increased during FY 2012-13, but decreased during FY 2013-14.

### **Overview of the Fund**

The Wisconsin Unemployment Reserve Fund was established under ch. 108, Wis. Stats., to account for unemployment tax contributions received from employers and benefits paid to unemployed workers. The Fund is administered by

the State of Wisconsin's Department of Workforce Development (DWD). The Unemployment Insurance Advisory Council, consisting of labor and management representatives, advises DWD on the administration of unemployment insurance law and submits its recommended changes in the law to the Legislature during every biennial legislative session.

Generally, the principal source of revenue for the Fund is quarterly unemployment tax contributions paid by the approximately 130,000 employers subject to the taxing provisions of ch. 108, Wis. Stats. However, during FY 2012-13 and FY 2013-14, the Fund also received a significant amount of federal funding to pay for emergency unemployment benefits. Federal law requires the Fund to hold all reserves in the Federal Unemployment Trust Fund, which invests in obligations guaranteed by the United States, and earnings on the Trust Fund may be used only to pay benefits. With the exception of certain federal allocations, the Fund's reserves may be used only to pay unemployment benefits or to refund tax and benefit overpayments to employers or, in the event benefits were federally funded, to the federal government. Federal Reed Act allocations, which are excess federal unemployment taxes collected by the federal government and paid to each state, may be used to pay costs associated with administering the Unemployment Insurance program or employment service programs. Federal special administrative allocations, which are special distributions to each state, may be used to pay costs associated with implementing and administering the provisions of state law that qualify it for incentive payments made under the February 2009 Assistance for Unemployed Workers and Struggling Families Act, and certain other administrative costs.

If the Fund exhausts all of its reserves, it may borrow from the Federal Unemployment Trust Fund to continue paying benefits. With the exception of some short-term cash flow situations, federal borrowing currently carries interest charges. The interest charges may not be funded from the Unemployment Reserve Fund.

Administrative costs of the Unemployment Insurance program are accounted for in the State of Wisconsin's General Fund and are not reported within the Unemployment Reserve Fund's financial statements. In addition, interest on outstanding advances from the federal government is accounted for in the State of Wisconsin's Unemployment Interest Payment Fund and general purpose revenue appropriations and is not reported within these financial statements.

## **Financial Statements**

These financial statements are intended to show the Fund's financial position as of June 30, 2013, and June 30, 2014, and results of operations and cash flows for FY 2012-13 and FY 2013-14. The Statement of Net Position reports the Fund's assets and liabilities. The Statement of Revenues, Expenses, and Changes in Fund Net Position reports all Unemployment Reserve Fund revenues, expenses, and transfers regardless of when cash is received or paid. This statement also shows the Fund's net position and how it has changed. The Statement of Cash Flows provides information about the Fund's cash receipts and cash payments during



the fiscal years and provides a reconciliation of net operating income to net cash flow provided by operating activities.

**Assets**

The Fund's assets consist of cash and cash equivalents and receivables. Table A shows that total assets decreased by \$19.5 million between June 30, 2012, and June 30, 2013, and by \$33.4 million between June 30, 2013, and June 30, 2014.

Table A  
**Assets**  
 (in millions)

	June 30, 2012	June 30, 2013	Change	June 30, 2014	Change
Cash and Cash Equivalents	\$ 13.4	\$ 6.5	\$ (6.9)	\$ 9.7	\$ 3.2
Receivables	427.1	414.5	(12.6)	377.9	(36.6)
<b>Total Assets</b>	<b>\$440.5</b>	<b>\$421.0</b>	<b>\$(19.5)</b>	<b>\$387.6</b>	<b>\$(33.4)</b>

Receivables from taxable employers decreased by \$30.7 million, or 9.5 percent, between June 30, 2012, and June 30, 2014, because the average total tax rate decreased during this period. The average tax rate based on taxable wages decreased from 4.4 percent in calendar year 2012 to 4.0 percent in calendar year 2013 and to an estimated 3.6 percent in calendar year 2014.

**Liabilities**

As shown in Table B, the Fund's liabilities decreased by \$423.5 million between June 30, 2012, and June 30, 2013, and by \$571.3 million between June 30, 2013, and June 30, 2014.

Table B

**Liabilities**  
(in millions)

	June 30, 2012	June 30, 2013	Change	June 30, 2014	Change
Advance from Federal Government	\$ 926.2	\$534.5	\$(391.7)	\$ 0	\$(534.5)
Benefit Overpayments Due Others	46.7	43.4	(3.3)	39.1	(4.3)
Benefits Payable	33.3	18.6	(14.7)	7.8	(10.8)
Other Liabilities	46.8	33.0	(13.8)	11.3	(21.7)
<b>Total Liabilities</b>	<b>\$1,053.0</b>	<b>\$629.5</b>	<b>\$(423.5)</b>	<b>\$58.2</b>	<b>\$(571.3)</b>

During FY 2008-09, the Fund depleted its reserves and began to borrow from the federal government. Starting on January 1, 2011, annual interest was incurred on the amount borrowed, and the Fund used excess cash to repay the advance. The advance from the federal government decreased from \$926.2 million as of June 30, 2012, to \$0 as of June 30, 2014, because the Fund repaid the advance in total in May 2014.

Benefits payable decreased by \$25.5 million, or 76.5 percent, between June 30, 2012, and June 30, 2014, because the average unemployment rate declined during the period and because temporary federally funded benefit programs ended. The average unemployment rate decreased from 7.3 percent in FY 2011-12 to 6.9 percent in FY 2012-13 and to 6.1 percent in FY 2013-14. The expiration of temporary federally funded benefit programs resulted in reductions of the maximum benefit period from a possible 86 weeks during the majority of FY 2011-12 to a possible 70 weeks as of the end of FY 2012-13 and to a possible 26 weeks as of the end of FY 2013-14. Also, certain federal benefits were reduced by 10.7 percent during the period.

### Net Position

As shown in Table C, the Fund's net position increased by \$404.0 million between June 30, 2012, and June 30, 2013, and by \$537.8 million between June 30, 2013, and June 30, 2014.

Table C

**Net Position**  
(in millions)

	June 30, 2012	June 30, 2013	Change	June 30, 2014	Change
Employer Accounts	\$1,108.1	\$1,416.7	\$308.6	\$1,733.3	\$316.6
Solvency Account	(1,731.1)	(1,631.1)	100.0	(1,406.5)	224.6
Restricted for Administration	10.6	6.0	(4.6)	2.6	(3.4)
<b>Total Net Position</b>	<b>\$ (612.4)</b>	<b>\$ (208.4)</b>	<b>\$404.0</b>	<b>\$ 329.4</b>	<b>\$537.8</b>

Revenues credited to the solvency account exceeded charges to the account during each fiscal year. Most revenues for the solvency account are generated through employer solvency tax contributions and interest earnings from balances maintained in the Federal Unemployment Trust Fund. During years in which the federal government has reduced employers' Federal Unemployment Tax Act (FUTA) credit in order to reduce the Fund's outstanding loan, the revenue generated from such reduction is also credited to the solvency account. This amounted to \$95.6 million in FY 2012-13, and \$147.3 million in FY 2013-14.

A number of statutory provisions require certain benefit payments to be charged to the solvency account rather than directly to an employer's account. For example, benefits paid to certain workers who have quit employment are charged to the solvency account. As a result, \$128.0 million in benefit payments was charged directly to the solvency account during FY 2012-13, and \$104.2 million during FY 2013-14. In addition, positive and negative balances in the accounts of out-of-business employers or employers no longer covered under unemployment insurance law are transferred to the solvency account. Another statutory provision requires transferring to the solvency account a portion of benefits previously charged to the accounts of certain employers with large deficit balances in their employer accounts. These transfers amounted to \$199.1 million during FY 2012-13 and \$171.7 million during FY 2013-14, and are a significant reason for the increase to employer accounts during each fiscal year. Another factor contributing to the increase of employer accounts by \$625.2 million, or 56.4 percent, between June 30, 2012, and June 30, 2014, is the decrease in benefits charged directly to employer accounts during the period. These benefits decreased from \$774.5 million during FY 2011-12 to \$599.3 million during FY 2013-14, a change of \$175.2 million, or 22.6 percent. This decline in benefit charges combined with the transfers of deficit balances to the solvency account resulted in the significant improvement to employer accounts.

## Operating and Nonoperating Revenues

The two major sources of operating revenue for the Fund are employer tax contributions, including those collected through the FUTA tax credit reduction, and reimbursements for benefits paid on behalf of the federal government, other governmental units, and nonprofit organizations. A smaller amount of revenue is received from forfeitures and other sources. Table D shows that the Fund's operating revenues decreased by \$307.2 million during FY 2012-13, and by \$303.3 million during FY 2013-14.

Table D

### Operating and Nonoperating Revenues (in millions)

	FY 2011-12	FY 2012-13	Change	FY 2013-14	Change
Employer Contributions	\$1,181.2	\$1,145.0	\$ (36.2)	\$1,102.3	\$ (42.7)
FUTA Credit Reduction	45.7	95.6	49.9	147.3	51.7
Benefit Reimbursements	846.9	526.6	(320.3)	215.5	(311.1)
Forfeitures and Other Revenues	9.0	8.4	(0.6)	7.2	(1.2)
<b>Total Operating Revenues</b>	<b>\$2,082.8</b>	<b>\$1,775.6</b>	<b>\$(307.2)</b>	<b>\$1,472.3</b>	<b>\$(303.3)</b>
Investment Earnings	\$0	\$0	\$0	\$0.05	\$0.05

Employer contributions decreased by \$78.9 million, or 6.7 percent, between FY 2011-12 and FY 2013-14 because the average total tax rate decreased during this period. The average tax rate decreased from 4.4 percent in calendar year 2012 to 4.0 percent in 2013 and to an estimated 3.6 percent in 2014.

FUTA tax credit reductions increased by \$101.6 million, or 222.2 percent, between FY 2011-12 and FY 2013-14 because the federal government increased the FUTA tax credit reduction for Wisconsin employers during this period. Employers subject to FUTA pay 6.0 percent to the federal government on the first \$7,000 of employee earnings, but receive a 5.4 percent tax credit if their state unemployment fund qualifies. Beginning with the tax due for 2011, the federal government incrementally reduced the FUTA credit for Wisconsin employers in order to recover the Fund's outstanding loan. The credit was reduced by 0.3 percent on the tax due for 2011, by 0.6 percent on the tax due for 2012, and by 0.9 percent on the tax due for 2013.

Benefit reimbursements decreased by \$631.4 million, or 74.6 percent, between FY 2011-12 and FY 2013-14 because temporary federally funded benefit programs ended, resulting in reductions of the maximum benefit period from a possible 86 weeks during the majority of FY 2011-12 to a possible 70 weeks as of the end of FY 2012-13 and to a possible 26 weeks as of the end of FY 2013-14. Also, certain federal benefits were reduced by 10.7 percent during the period.

### Expenses and Transfers

As shown in Table E, the Fund's operating expenses decreased by \$396.8 million during FY 2012-13, and by \$435.9 million during FY 2013-14.

Table E

#### Expenses and Transfers (in millions)

	FY 2011-12	FY 2012-13	Change	FY 2013-14	Change
Benefits Paid on Behalf of:					
Taxable Employers	\$ 915.4	\$ 838.5	\$ (76.9)	\$715.4	\$(123.1)
Federal Government for Benefit Programs	754.7	451.3	(303.4)	153.0	(298.3)
Other Entities	93.7	77.2	(16.5)	62.7	(14.5)
<b>Total Operating Expenses</b>	<b>\$1,763.8</b>	<b>\$1,367.0</b>	<b>\$(396.8)</b>	<b>\$931.1</b>	<b>\$(435.9)</b>
Transfer to Pay Administrative Expenses in General Fund and Other Nonoperating Expenses	\$5.3	\$4.6	\$(0.7)	\$3.4	\$(1.2)

Benefits paid on behalf of taxable employers decreased by \$200.0 million, or 21.8 percent, between FY 2011-12 and FY 2013-14, because the average unemployment rate decreased from 7.3 percent in FY 2011-12 to 6.9 percent in FY 2012-13 and to 6.1 percent in FY 2013-14. Benefits paid on behalf of the federal government for benefit programs decreased by \$601.7 million, or 79.7 percent, because temporary federally funded benefit programs ended, resulting in reductions of the maximum benefit period from a possible 86 weeks during the majority of FY 2011-12 to a possible 70 weeks as of the end of FY 2012-13 and to a possible 26 weeks as of the end of FY 2013-14. Also, certain federal benefits were reduced by 10.7 percent during the period.

### **Currently Known Facts, Decisions, and Conditions**

As of April 1, 2015, the State of Wisconsin does not owe interest to the U.S. Treasury and has no outstanding federal advance. Any interest would be accounted for in the State of Wisconsin's Unemployment Interest Payment Fund or other state accounts and may not be paid from regular unemployment funds or from federal funds. The Unemployment Interest Payment Fund was funded by special assessments on employers and paid \$42.3 million in interest for the period January 1, 2011, to September 30, 2011, and paid \$35.8 million in interest for the period October 1, 2011, to September 30, 2012. The State of Wisconsin General Fund paid \$18.9 million in interest for the period October 1, 2012, to September 30, 2013, and paid \$5.9 million in interest for the period October 1, 2013, to September 30, 2014.

Because the Fund had no outstanding federal advance as of November 10, 2014, Wisconsin employers were not subject to a FUTA credit reduction on the tax due for 2014.

### **Contacting the Unemployment Reserve Fund's Management**

This financial report is designed to provide an overview of the financial results of the Fund's activities and to show the Fund's financial position. If you have questions on this report or need additional information, contact:

Wisconsin Unemployment Reserve Fund  
Department of Workforce Development  
Division of Unemployment Insurance  
201 East Washington Avenue  
Madison, Wisconsin 53702

General information relating to the Fund can be found on the Fund's website, <http://dwd.wisconsin.gov/ui/>.

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## **Financial Statements ■**

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## Statement of Net Position June 30, 2014, and June 30, 2013

	June 30, 2014	June 30, 2013
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents (Note 3):		
Federal Unemployment Trust Fund	\$ 6,743,358	\$ 0
Cash in Bank	132,835	0
Current Cash and Cash Equivalents	<u>6,876,193</u>	<u>0</u>
Employer Accounts Receivable:		
Taxable Employers (Net of Allowance)	276,534,071	301,823,555
Governmental Units and Nonprofit Organizations (Net of Allowance)	4,624,864	6,001,442
Combined Wage Claim Receivables	<u>2,030,090</u>	<u>2,401,121</u>
Net Current Employer Accounts Receivable	<u>283,189,025</u>	<u>310,226,118</u>
Other Receivables:		
Overpayments to Claimants (Net of Allowance)	25,365,255	27,277,543
Federally Funded Unemployment Benefit Programs	433,266	8,801,241
Due from State of Wisconsin (Note 4)	<u>501,872</u>	<u>559,429</u>
Net Current Other Receivables	<u>26,300,393</u>	<u>36,638,213</u>
Total Current Assets	<u>316,365,611</u>	<u>346,864,331</u>
Noncurrent Assets:		
Restricted Cash for Administration	2,805,398	6,546,075
Taxable Employer Accounts Receivable	16,393,974	17,884,230
Overpayments to Claimants	<u>52,082,871</u>	<u>49,682,214</u>
Total Noncurrent Assets	<u>71,282,243</u>	<u>74,112,519</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 387,647,854</u></b>	<b><u>\$ 420,976,850</u></b>
<b>LIABILITIES AND NET POSITION</b>		
Current Liabilities:		
Advance from Federal Government	\$ 0	\$ 446,784,063
Overdrafts	0	15,730,354
Benefits Payable	7,835,536	18,566,269
Employer Overpayments	5,885,517	4,466,380
Benefit Overpayments Due Employers, Other States, and Federal Government	39,067,167	43,380,525
Combined Wage Claim Plan Liabilities	2,313,965	3,723,873
Due to Federal Government	1,227,267	5,209,947
Due to State of Wisconsin (Note 4)	1,642,288	3,229,444
Other	<u>244,812</u>	<u>605,567</u>
Total Current Liabilities	<u>58,216,552</u>	<u>541,696,422</u>
Noncurrent Liabilities:		
Advance from Federal Government	<u>0</u>	<u>87,754,887</u>
Total Liabilities	<u>58,216,552</u>	<u>629,451,309</u>
Net position (Note 1):		
Employer Accounts	1,733,319,157	1,416,684,675
Solvency Account	(1,406,511,521)	(1,631,140,849)
Restricted for Administration	<u>2,623,666</u>	<u>5,981,715</u>
Total Net Position	<u>329,431,302</u>	<u>(208,474,459)</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b><u>\$ 387,647,854</u></b>	<b><u>\$ 420,976,850</u></b>

The accompanying notes are an integral part of this statement.



**Statement of Revenues, Expenses, and Changes in Fund Net Position  
for the Years Ended June 30, 2014, and June 30, 2013**

	For the Year Ended June 30, 2014	For the Year Ended June 30, 2013
<b>OPERATING REVENUES</b>		
Employer Contributions	\$ 1,102,342,238	\$ 1,144,991,539
Federal Unemployment Tax Act Credit Reduction	147,268,301	95,572,595
Benefits reimbursed by:		
Federal Government for Benefit Programs	153,045,380	451,277,584
Federal Government for Former Employees	8,668,311	12,280,679
State of Wisconsin, Electing Local Governments, and Electing Nonprofit Organizations	46,445,620	54,411,545
Other States	7,349,667	8,611,042
Forfeitures and Other Revenues	7,209,030	8,440,273
<b>Total Operating Revenues</b>	<b>1,472,328,547</b>	<b>1,775,585,257</b>
<b>OPERATING EXPENSES</b>		
Benefits Paid or Provided on Behalf of:		
Taxable Employers	715,416,069	838,484,161
Federal Government for Benefit Programs	153,045,380	451,277,584
Federal Government for Former Employees	8,668,311	12,280,679
State of Wisconsin, Electing Local Governments, and Electing Nonprofit Organizations	46,459,583	54,444,314
Other States	7,349,667	8,611,042
Adjustment for Allowance—Claimants	174,786	1,893,290
<b>Total Operating Expenses</b>	<b>931,113,796</b>	<b>1,366,991,070</b>
<b>OPERATING INCOME</b>	<b>541,214,751</b>	<b>408,594,187</b>
<b>NONOPERATING REVENUES</b>		
Investment Earnings	49,059	0
<b>Total Nonoperating Revenues</b>	<b>49,059</b>	<b>0</b>
<b>INCOME BEFORE TRANSFERS</b>	<b>541,263,810</b>	<b>408,594,187</b>
<b>TRANSFERS</b>		
Transfer to State of Wisconsin General Fund	(3,358,049)	(4,646,877)
<b>CHANGE IN NET POSITION</b>	<b>537,905,761</b>	<b>403,947,310</b>
Net position at the Beginning of the Year	(208,474,459)	(612,421,769)
Net position at the End of the Year (Note 1)	<b>\$ 329,431,302</b>	<b>\$ (208,474,459)</b>

## Statement of Cash Flows for the Years Ended June 30, 2014, and June 30, 2013

	For the Year Ended June 30, 2014	For the Year Ended June 30, 2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received from:		
Employer Contributions	\$ 1,130,559,914	\$ 1,149,853,224
Federal Unemployment Tax Act Credit Reduction	147,268,301	95,572,595
Benefit Reimbursements	221,742,179	506,386,776
Other Operating Revenues	47,183,155	56,099,666
Cash Payments for:		
Benefits	(989,657,111)	(1,427,652,723)
<b>Net Cash Provided by Operating Activities</b>	<b>557,096,438</b>	<b>380,259,538</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Transfers to State of Wisconsin General Fund	(3,740,678)	(4,741,667)
Cash Overdraft Implicitly Financed (Repaid)	(15,730,354)	11,440,876
Advance from Federal Government	738,978,761	917,345,583
Repayment of Advance from Federal Government	(1,273,517,710)	(1,309,045,997)
<b>Net Cash Used by Noncapital Financing Activities</b>	<b>(554,009,981)</b>	<b>(385,001,205)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment Earnings	49,059	0
<b>Net Cash Provided by Investing Activities</b>	<b>49,059</b>	<b>0</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>3,135,516</b>	<b>(4,741,667)</b>
Cash and Cash Equivalents at the Beginning of the Year	6,546,075	11,287,742
Cash and Cash Equivalents at the End of the Year	<b>\$ 9,681,591</b>	<b>\$ 6,546,075</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating Income	\$ 541,214,751	\$ 408,594,187
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Provision for Uncollectible Accounts	(9,324,804)	2,084,428
Changes to Assets and Liabilities:		
Decrease in Employer Accounts Receivables	36,112,198	2,889,506
Decrease in Other Receivables	9,677,117	7,734,872
Decrease in Liabilities	(20,582,824)	(41,043,455)
Total Adjustments	15,881,687	(28,334,649)
<b>Net Cash and Cash Equivalents Provided by Operating Activities</b>	<b>\$ 557,096,438</b>	<b>\$ 380,259,538</b>

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# Notes to the Financial Statements ■

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## 1. DESCRIPTION OF THE UNEMPLOYMENT RESERVE FUND

The Unemployment Insurance program is authorized in ch. 108, Wis. Stats., which includes the creation of the Unemployment Reserve Fund to account for contributions received from employers and benefits paid to unemployed workers. The Fund is administered by the State of Wisconsin Department of Workforce Development (DWD).

The Unemployment Insurance program follows the requirements of the Federal Unemployment Tax Act (FUTA), as amended. Therefore, covered employers in Wisconsin are permitted to offset their FUTA tax by a portion of the amount contributed to the Wisconsin Unemployment Reserve Fund. The net FUTA taxes paid by employers to the federal government are used, in part, to reimburse DWD for its costs to administer the Fund. These administrative costs, along with federal reimbursements, are accounted for in the State of Wisconsin's General Fund and are not reported within the State of Wisconsin Unemployment Reserve Fund's financial statements.

The Unemployment Reserve Fund, which is part of the State of Wisconsin financial reporting entity and is reported as an enterprise fund in the State's basic financial statements, accounts for employer contributions and benefits paid to unemployed workers, as well as reimbursements of benefits paid or provided on behalf of the federal government, other governmental units, and nonprofit organizations. The Fund's net position, which is restricted for unemployment benefit payments or other purposes allowed by federal law, includes the following accounts:

**A. Employer Accounts**

A separate account is maintained for each employer for the purpose of determining employer contribution rates. Each account is credited for a portion of the employer's contribution paid into the Fund and charged for certain benefits paid from the Fund to the employer's former employees.

**B. Solvency Account**

The solvency account primarily accounts for solvency contributions from employers and earnings from deposits with the Federal Unemployment Trust Fund. During years in which the federal government has reduced employers' FUTA credit in order to reduce the Fund's outstanding loan, the revenue generated from such reduction is also credited to the solvency account. Charges to this account primarily include benefit payments that statutorily cannot be charged to a specific employer's account, such as benefits paid relating to out-of-business employers or benefits paid to certain employees who voluntarily terminate employment. In addition, the solvency account is charged for a portion of benefits previously charged to the accounts of certain employers with large deficit balances in their employer accounts.

**C. Restricted for Administration**

A portion of the Fund's net position has been restricted for administration of the unemployment insurance law and employment services.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****A. Fund Accounting and Basis of Presentation**

The financial statements of the Wisconsin Unemployment Reserve Fund have been prepared in conformance with generally accepted accounting principles for proprietary funds. The Fund applies all applicable Governmental Accounting Standards Board (GASB) statements. The Fund is accounted for using the economic resources measurement focus. With this measurement focus, all assets and liabilities are included on the Statement of Net Position. The Fund is reported on the full accrual basis of accounting. This basis of accounting recognizes revenues and overpayment recoveries when they are measurable and due, regardless of when cash is received. Expenses are recognized in the period incurred, regardless of when cash is paid. The Statement of Revenues, Expenses, and Changes in Fund Net Position classifies revenues and expenses as either operating or nonoperating.

Transactions categorized as operating revenues and expenses are those relating to the Fund's principal operation of paying benefits to unemployed

workers. Operating expenses include items such as benefits paid. Certain revenues that are not related to the Fund's principal operation, such as investment earnings, are reported as nonoperating revenue.

**B. Accounting Estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. For example, allowances for doubtful collections are established for some receivables based on historical collection information. Actual results may differ from those estimates.

**C. Amounts Receivable from Taxable Employers**

Under the full accrual basis of accounting, employer contributions are recognized as revenues in the accounting period in which they become due and measurable. Contributions are reported based on employer self-declared payroll reports. However, some estimates are used to report contributions for employers who fail to file the required reports. In addition, historical collection information is used to estimate and establish an allowance for doubtful collections. Amounts expected to be collected, but not within twelve months, are reported as noncurrent assets on the Statement of Net Position.

**D. Amounts Receivable from Governmental Units and Nonprofit Organizations**

The federal government, the State of Wisconsin, electing local governmental units, and electing nonprofit organizations are referred to as "reimbursable employers" because they reimburse the Fund for benefits charged to their accounts, rather than contribute in advance of benefit payments. The Fund recognizes a receivable from these organizations when benefits are paid to their former employees. Historical collection information is used to estimate and establish an allowance for doubtful collections. All receivables, net of the allowance, are expected to be collected within twelve months. Amounts receivable from nonprofit organizations written off as uncollectible are recovered through a statutory assessment against active nonprofit employers who have elected reimbursement financing.

**E. Amounts Receivable from Claimants**

In some instances, benefits are 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 benefit overpayment is identified. A related liability is established for the portion of the overpayments that, when collected, will be credited to reimbursable employers or the federal government. Historical collection information is used to estimate and establish an allowance for doubtful collections. Amounts expected to be collected, but not

within twelve months, are reported as noncurrent assets on the Statement of Net Position.

**F. Amounts Receivable for Federally Funded Benefit Programs**

The federal government provides funding for certain unemployment benefit programs that either supplement or extend regular state-funded benefits. Some programs, such as Disaster Unemployment Assistance and Trade Readjustment Assistance, are ongoing while other programs, such as Emergency Unemployment Compensation and Extended Benefits, are temporary. The Fund recognizes a receivable from the federal government when benefits are paid under these programs.

**G. Benefits Payable to Claimants**

Benefits payable to claimants reflect benefits payable through June 30. The liability is based upon known subsequent claim payments and other available information.

**H. Deferred Outflows of Resources and Deferred Inflows of Resources**

GASB issued Statement Number 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective beginning in FY 2012-13. The objective of this statement is to provide guidance for deferred outflows of resources and deferred inflows of resources as required elements of the financial statements. The Fund has no deferred outflows or inflows of financial resources to be reported on the Statement of Net Position.

**3. DEPOSITS**

Deposits include cash and cash equivalents on deposit in banks or other financial institutions. The majority of the Fund's cash and cash equivalents consist of deposits with the Federal Unemployment Trust Fund managed by the Secretary of the Treasury pursuant to Title IX of the Social Security Act. The Federal Unemployment Trust Fund includes deposits from the unemployment insurance funds of all states. The Trust Fund is required by federal law to invest only in obligations guaranteed by the United States. The State of Wisconsin Unemployment Reserve Fund is credited quarterly with earnings only to the extent the Fund's deposit with the Federal Unemployment Trust Fund exceeds the Fund's outstanding advances, if any, from the Trust Fund, as computed on a daily basis. The deposit with the Federal Unemployment Trust Fund 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.

The remainder of the Fund’s cash and cash equivalents consists of deposits in a bank. If the carrying amount of the deposit is negative, the Fund reports an overdraft on the Statement of Net Position.

For deposits held in financial institutions, custodial credit risk is the risk that in the event of a failure of a depository financial institution, deposits may not be returned. Most of the deposits that are held in financial institutions are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). The State of Wisconsin Public Deposit Guarantee fund insures up to \$400,000 above the amount of federal insurance. The Fund’s management monitors the debt ratings of its bank as published by Moody’s, S&P, Fitch, and DBRS. The following amounts of the Fund’s bank balances of \$3,570,780 as of June 30, 2013, and \$3,068,224 as of June 30, 2014, were exposed to custodial credit risk:

	<u>June 30, 2013</u>	<u>June 30, 2014</u>
Uninsured and Uncollateralized	\$2,920,780	\$2,418,224

**4. AMOUNTS DUE TO/FROM STATE OF WISCONSIN**

The amount reported as “Due to State of Wisconsin” consists primarily of state income taxes withheld from claimant benefit payments but not yet paid to the General Fund. It also consists of interest and penalty payments collected from employers and claimants but not yet paid to the General Fund.

The amount reported as “Due from State of Wisconsin” consists primarily of benefits paid on behalf of the State for its former employees that the State has not yet reimbursed the Fund. Part of the amount reported as “Due from State of Wisconsin” resulted from the time lag between when benefits were paid out of the Unemployment Reserve Fund and when reimbursements were received. Also, under certain circumstances, benefits paid to former employees of governmental units and nonprofit organizations are reimbursed by interest and penalty funds accounted for in a program revenue appropriation in the State of Wisconsin General Fund.







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## **Supplementary Information ■**

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**Schedule of Cash Balance Related to Taxable Employers  
June 30, 2014, and June 30, 2013**

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
<b>CASH BALANCE</b>		
Cash and Cash Equivalents	\$ 6,876,193	\$ 0
Overdrafts	<u>0</u>	<u>(15,730,354)</u>
<b>Net Cash Balance</b>	<b><u>6,876,193</u></b>	<b><u>(15,730,354)</u></b>
<b>INCREASES</b>		
Employer Accounts Receivable		
Government Units and Nonprofit Organizations	3,996,006	4,842,693
Combined Wage Claim Plan Receivables	<u>1,962,926</u>	<u>2,243,208</u>
Total Employer Accounts Receivable	5,958,932	7,085,901
Other Receivables		
Federally Funded Unemployment Benefit Programs	212,771	2,506,088
Due from the State of Wisconsin	<u>405,153</u>	<u>425,517</u>
Total Other Receivables	617,924	2,931,605
<b>Total Increases</b>	<b><u>6,576,856</u></b>	<b><u>10,017,506</u></b>
<b>DECREASES</b>		
Advance from Federal Government	0	534,538,950
Employer Overpayments	8,762,318	7,426,307
Due to State of Wisconsin	1,460,556	2,665,084
Due to the Federal Government	1,227,267	5,209,947
Benefit Overpayments Due Other States	46,239	20,554
Other	<u>208,552</u>	<u>593,029</u>
<b>Total Decreases</b>	<b><u>11,704,932</u></b>	<b><u>550,453,871</u></b>
Cash Balance Related to Taxable Employers	<b><u>\$ 1,748,117</u></b>	<b><u>\$ (556,166,719)</u></b>

The accompanying Note to the Schedule of Cash Balance Related to Taxable Employers is an integral part of this schedule.



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## Note to the Schedule of Cash Balance Related to Taxable Employers ■

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR DETERMINING THE CASH BALANCE

The Schedule of Cash Balance Related to Taxable Employers as of June 30, 2013, and June 30, 2014, is presented for informational purposes. Section 108.18(3m), Wis. Stats., provides for one of four tax rate schedules to be in effect during a particular calendar year, depending on the preceding June 30 cash balance in the Unemployment Reserve Fund. Tax rate Schedule A was in effect during 2013 because the June 30, 2012 balance was (\$964,570,654), which is less than the \$300 million level specified in Wisconsin Statutes. Tax rate Schedule A was also in effect during 2014 because the June 30, 2013 balance was (\$556,166,719). Tax rate Schedule A is in effect during 2015 because the June 30, 2014 balance was \$1,748,117.

#### A. Net Cash Balance

The cash and cash equivalent balance reported in the Unemployment Reserve Fund's financial statements is reduced by overdrafts to arrive at a net cash balance. Restricted cash is not included because it is not available for the payment of benefits on behalf of taxable employers. The net cash balance is then adjusted for balance sheet accounts that are unrelated to taxable employers to arrive at the cash balance related to taxable employers. Accruals that have no effect on the cash balance are removed from the balance sheet accounts.

**B. Increases**

The net cash balance is increased for the cash payments to be reimbursed to the Fund by:

- local and federal governmental units and nonprofit organizations, gross of the allowance for uncollectible accounts, for benefits paid to their former employees;
- other states for Combined Wage Claims;
- the federal government for federally funded unemployment benefit programs; and
- the State of Wisconsin for benefits paid to its former employees.

**C. Decreases**

The net cash balance is reduced for the cash receipts from:

- the federal government for a loan advance;
- employers for overpayments of tax contributions;
- claimants and employers for interest and penalty assessments, state withholding taxes, and federal loan interest assessments to be remitted to the State of Wisconsin;
- the federal government for federally funded unemployment benefit programs in excess of the benefits paid;
- claimants for benefit overpayments to be remitted to other states; and
- claimants for other items to be remitted elsewhere, such as federal withholding taxes.

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## **Auditor's Report ■**

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STATE OF WISCONSIN

Legislative Audit Bureau

22 East Mifflin Street, Suite 500 ■ Madison, WI 53703 ■ (608) 266-2818 ■ Hotline: 1-877-FRAUD-17 ■ www.legis.wisconsin.gov/lab

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Report 15-8

Joe Chrisman  
State Auditor

## Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters

Senator Robert Cowles and  
Representative Samantha Kerkman, Co-chairpersons  
Joint Legislative Audit Committee

Mr. Reginald Newson, Secretary  
Department of Workforce Development

We have audited the financial statements and the related notes of the State of Wisconsin Unemployment Reserve Fund as of and for the years ended June 30, 2014, and June 30, 2013, and have issued our report thereon dated June 22, 2015. 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*, which is issued by the Comptroller General of the United States.

### Internal Control over Financial Reporting

Management of the Unemployment Reserve Fund is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audits of the financial statements, we considered the Unemployment Reserve Fund's 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 Unemployment Reserve Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Unemployment Reserve 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 misstatements, or to 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 Unemployment Reserve Fund's financial statements will not be prevented, or that a material misstatement will not be detected and corrected on a timely basis.

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. Given these limitations, 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 Unemployment Reserve Fund's financial statements are free from material misstatement, we performed tests of compliance with certain provisions of laws, regulations, and contracts, 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

This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be used when considering the Unemployment Reserve Fund's internal control and compliance. The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Unemployment Reserve Fund's internal control or on compliance. Accordingly, this report is not suitable for any other purpose.

LEGISLATIVE AUDIT BUREAU



Joe Chrisman  
State Auditor

June 22, 2015

June 26, 2015

Joe Chrisman  
State Auditor  
Legislative Audit Bureau  
22 E. Mifflin Street, Suite 500  
Madison, WI 53703

Dear Mr. Chrisman,

Thank you for the opportunity to respond to the Legislative Audit Bureau's (LAB) audit covering the financial statements of the state's Unemployment Insurance (UI) Trust Fund. The Department of Workforce Development (DWD) appreciates the LAB's analysis, positive feedback on the current condition of the fund and recommendation to continue working with the UI Advisory Council (UIAC) and take steps to strengthen the long-term health of the fund.

Reforms enacted in recent years by the Legislature and Governor Walker have improved the condition of the UI Trust Fund. Furthermore, we are pleased that our rigorous accounting system and practices contributed to the LAB's conclusion of no findings, along with the following affirmations:

- Financial statements of the UI Trust fund "present fairly, in all material respects, the financial position" of the fund as of June 30, 2014 and June 30, 2013.
- The LAB determined "the information is fairly presented in all material respects in relation to the financial statements as a whole."
- Results of the LAB's compliance tests revealed "no instances of noncompliance or other matters" that would require reporting under Government Auditing Standards.

Wisconsin was one of over 30 states that amassed federal UI Trust Fund loans in association with the Great Recession and had a negative balance of \$1.4 billion in January 2011. Wisconsin repaid the loans, moved the fund into positive territory and ended fiscal year 2014 with the first positive year-end balance since fiscal 2007-08. This allowed Wisconsin employers to obtain the full Federal Unemployment Tax (FUTA) Credit for 2014.

Other factors contributing to the Trust Fund's current state include:

- Wisconsin's unemployment rate has fallen from 8.1% in December 2010 to 4.6% in May 2015.
- Average Initial Unemployment Insurance (UI) claims for the first 24 weeks of 2015 dropped to the lowest point since 1995, and the annual average weekly continued UI claims are at their lowest levels since 2000.
- Regular benefits paid in 2014 decreased by \$150 million, or 19.0% compared to 2013.

Legislative and policy reforms, such as removing certain voluntary work termination provisions from eligibility and establishing a common-sense disqualification standard for misconduct and substantial fault, also have strengthened the UI Trust Fund and integrity of the overall UI program.

Even with these historic UI reforms now in place, we recognize that the long-term strength of the UI Trust Fund will support the pro-business climate that encourages Wisconsin employers to expand and add jobs. We agree with the LAB's recommendation to continue working with the UI Advisory Council and take steps to further improve the net position of the UI Trust Fund. The Department has worked and will continue to work with the UIAC to strengthen the UI Trust Fund. Furthermore, the UIAC has expressed its commitment to continue to consider legislative options to strengthen the UI Trust Fund.

One solution that DWD is pursuing aggressively is to reduce instances of overpayments due to fraud. A national study released in 2013 showed 3.1% of UI benefits paid across the country were obtained fraudulently.

In 2014 Wisconsin experienced a fraudulent overpayment detection rate of 2.8%.

Recent efforts by the Department to enhance program integrity and further improve the Trust Fund's net position include:

- Hiring of eight investigators to conduct misclassification and fraud investigations;
- Implementation of data analytics to expose imposter fraud;
- Use of enhanced collection tools to recoup improper payments;
- Implementation of incarceration cross-match (APPRISS);
- Dramatic increase in the number of work search audits.

As DWD explores identity-proofing technology, hires additional fraud investigators and pursues the above-named strategies to build upon existing UI fraud prevention, detection and enforcement measures, we also are working to increase prosecution efforts at the county and state levels to help deter future attempts.

We believe a combination of measures that improve program integrity and grow the economy, along with further dialogue with the UIAC and the Legislature, will go a long way toward strengthening the net position of the UI Trust Fund.

Again, DWD extends its appreciation to the LAB for its thorough analysis, objective feedback and helpful recommendation.

Sincerely,

A handwritten signature in cursive script that reads "Reggie Newson". The signature is written in black ink and is positioned above the typed name and title.

Reggie Newson, Secretary  
Wisconsin Department of Workforce Development.