

MARYLAND UNEMPLOYMENT INSURANCE TRUST FUND

**Financial Statements Together With
Report of Independent Public Accountants**

For the Years Ended June 30, 2018 and 2017



SB & COMPANY, LLC
KNOWLEDGE • QUALITY • CLIENT SERVICE

JUNE 30, 2018 AND 2017

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Management of the
Maryland Unemployment Insurance Trust Fund

Report on the Financial Statements

We have audited the accompanying financial statements of the Maryland Unemployment Insurance Trust Fund (the Fund), an enterprise fund of the State of Maryland, as of and for the years ended June 30, 2018 and June 30, 2017, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The Fund's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls 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 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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 controls relevant to the Fund's preparation and fair presentation of the financial statements to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of the entity's internal controls. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund, as of June 30, 2018 and 2017, and its changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



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Other Matter

As discussed in Note 1, the accompanying financial statements present only the transactions of the Fund and are not intended to present fairly the financial position of the State of Maryland as of June 30, 2018 and 2017, and the changes in its financial position and its cash flow for the years then ended in conformity with accounting principle generally accepted in the United States of America.

Hunt Valley, Maryland
September 28, 2018

SB & Company, LLC

MARYLAND UNEMPLOYMENT INSURANCE TRUST FUND

Statements of Net Position As of June 30, 2018, and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents	\$ 3,110,478	\$ 2,904,756
Cash on deposit with Federal Unemployment Trust Fund	1,235,395,306	1,180,750,281
Accounts receivable, net	143,661,777	153,215,990
Total Assets	<u>1,382,167,561</u>	<u>1,336,871,027</u>
LIABILITIES		
Bank overdrafts	1,822,095	1,114,906
Accounts payable for unemployment benefits	47,072,307	39,276,272
Total Liabilities	<u>48,894,402</u>	<u>40,391,178</u>
Net Position		
Restricted for unemployment benefits	<u>\$ 1,333,273,159</u>	<u>\$ 1,296,479,849</u>

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

MARYLAND UNEMPLOYMENT INSURANCE TRUST FUND

Statements of Revenue, Expenses, and Change in Net Position For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating Revenue		
Charges for services and sales	\$ 519,301,229	\$ 560,401,753
Decrease in provision for allowances for uncollectible accounts	<u>861,649</u>	<u>5,269,016</u>
Operating Revenue, Net of Provision	<u>520,162,878</u>	<u>565,670,769</u>
Operating Expenses		
Benefits - State	508,317,575	534,099,590
Benefits - Federal	<u>9,871,909</u>	<u>12,315,475</u>
Total Operating Expenses	<u>518,189,484</u>	<u>546,415,065</u>
Operating Gain/Loss	<u>1,973,394</u>	<u>19,255,704</u>
Non-Operating Revenue		
Federal grants	9,050,334	10,006,362
Interest	<u>25,769,582</u>	<u>24,215,799</u>
Total Non-Operating Revenue	<u>34,819,916</u>	<u>34,222,161</u>
Change in net position	36,793,310	53,477,865
Net position, beginning of year	<u>1,296,479,849</u>	<u>1,243,001,984</u>
Net Position, End of Year	<u>\$ 1,333,273,159</u>	<u>\$ 1,296,479,849</u>

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

MARYLAND UNEMPLOYMENT INSURANCE TRUST FUND

Statements of Cash Flows For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash Flows From Operating Activities		
Receipts from employers	\$ 529,717,092	\$ 586,608,725
Payments to claimants	<u>(510,393,449)</u>	<u>(550,652,457)</u>
Net Cash From Operating Activities	<u>19,323,643</u>	<u>35,956,268</u>
Cash Flows From Investing Activities		
Interest income	<u>25,769,581</u>	<u>24,215,799</u>
Cash Flows From Non-Capital Financing Activities		
Receipts from Federal grants	9,050,334	10,006,362
Bank overdrafts, net	<u>707,189</u>	<u>(556,755)</u>
Net Cash From Non-Capital Financing Activities	<u>9,757,523</u>	<u>9,449,607</u>
Net Change in Cash and Cash Equivalents	54,850,747	69,621,674
Cash and cash equivalents, beginning of year	<u>1,183,655,037</u>	<u>1,114,033,363</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,238,505,784</u>	<u>\$ 1,183,655,037</u>
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating gain/loss	\$ 1,973,393	\$ 19,255,703
Net changes in non-cash operating assets and liabilities:		
Accounts receivable	9,554,213	20,937,956
Accounts payable for unemployment benefits	<u>7,796,037</u>	<u>(4,237,391)</u>
Net Cash from Operating Activities	<u>\$ 19,323,643</u>	<u>\$ 35,956,268</u>

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

MARYLAND UNEMPLOYMENT INSURANCE TRUST FUND

Notes to the Financial Statements June 30, 2018 and 2017

1. REPORTING ENTITY

The accompanying financial statements present only the Maryland Unemployment Insurance Trust Fund (the Fund), an enterprise fund of the State of Maryland (the State), and do not present the financial statements of the State as a whole. The Fund is not a separate legal entity from the State.

The administrative costs related to the Fund are not reported in the financial statements of the Fund. The administrative costs are reported in the State General Fund, as assessments earned from employers are not designed to recover the costs of administration.

2. FUND DESCRIPTION

Historical Background

Unemployment Insurance (UI) provides temporary relief for the time that an able-bodied worker is involuntarily unemployed. The goal of such insurance is to provide a minimal livelihood to unemployed workers until they are once again employed.

The United States of America introduced an unemployment insurance program, along with other welfare programs, with the passage of the Social Security Act of 1935. Over the years, Congress has extended the program to many workers initially not covered. Amendments to the Social Security Act provided unemployment insurance for Federal civilian employees (1954) and for ex-servicemen (1958). By 1994, more than 96% of all workers were covered by unemployment insurance. Each state has its own unemployment insurance law and operates its own program.

The total cost is borne by employers in all but a few states. Employers with relative experience of less unemployment (that is, with fewer unemployment benefits paid to their former workers) are rewarded with lower rates. This financing arrangement is intended to promote economic stability by encouraging employers to retain a skilled workforce. The surge in unemployment benefit payments also provides an economic stimulus to the local economy during a recession.

During periods of high unemployment in a state, Federal-state extended benefits are available to workers who have exhausted their regular benefits.

MARYLAND UNEMPLOYMENT INSURANCE TRUST FUND

Notes to the Financial Statements June 30, 2018 and 2017

2. FUND DESCRIPTION (continued)

Unemployment Insurance Financing

Payroll taxes are paid by employers to support UI. There are both Federal and State UI payroll taxes. The State of Maryland UI tax is assessed quarterly based on a rate determined annually per individual employer. The range of rates effective January 1, 2018 was 0.3% to 7.5 % on the first \$8,500 of each employee's wages during a calendar year. Employers must also pay an annual Federal Unemployment Insurance Tax (FUTA) on the first \$7,000 of each employee's wages during a calendar year. For employers that pay their State UI taxes in a timely manner, the FUTA rate was 0.6% for calendar year 2018 and 2017. Employers that fail to pay State UI taxes were required to pay a FUTA tax using a 6.0% rate for calendar year 2018 and 2017.

Contributions by Maryland employers for State UI are deposited into the Fund's account maintained at the U.S. Treasury. Maryland has one of the 53 state accounts that are the source of monies for paying regular UI benefits and the State share of extended benefits (EB). Contributions by Maryland employers for FUTA are deposited into the Federal Employment Security Administration Account (ESAA). This account finances the administrative costs of UI and the Employment Service programs in the State. The Federal share of EB is paid from a second Federal account and a third Federal account makes loans to states with insolvent trust funds.

Under current law, excess monies in the Federal trust funds are slated for return to the states under the Reed Act. Excess Federal trust fund balances are distributed according to each state's share of Federal taxable UI wages. Reed Act distributions may be used to offset the administrative costs related to the Fund or for unemployment benefits. There was no such allocation for the years ended June 30, 2018 and 2017.

Local Perspective

Maryland employers remit State UI payments directly to a bank lock box. The Maryland Office of Unemployment Insurance (OUI) wires each day's opening available balance in this depository account to the Fund at the Federal Treasury. Additionally, officials in the Maryland OUI determine the amount of funds required for each day's benefit payment account. Only nominal balances are maintained in both the depository (clearing) and benefit payment accounts.

Both the amounts of taxes paid by Maryland employers, and the amount of benefits received by Maryland's unemployed, are products of the economic climate. Benefit payments will usually increase during a recession. Charging those benefits to employer accounts will elevate individual employer tax rates, driving an increase in the payment of employer State UI taxes.

MARYLAND UNEMPLOYMENT INSURANCE TRUST FUND

Notes to the Financial Statements June 30, 2018 and 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus and Basis of Accounting

The financial statements of the Fund are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Fund distinguishes operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services in connection with the Fund's principal ongoing operations. Revenue and expenses not meeting this definition are reported as non-operating revenue and expenses. The principal operating revenue of the Fund is assessments from employers.

Fund Accounting

The financial activities of the State are recorded in individual funds, each of which is deemed to be a separate accounting entity. The State uses fund accounting to report on its financial position and changes in financial position. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

An enterprise fund accounts for those activities for which the intent of management is to recover, primarily through user charges, the cost of providing goods or services to the public, or where sound financial management dictates that periodic determinations of results of operations are appropriate.

The Fund accounts for the deposit of monies for the Maryland Unemployment Insurance Trust Fund held by the U.S. Treasury for payment of unemployment benefits. The Maryland Unemployment Insurance Trust Fund is an enterprise fund.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

MARYLAND UNEMPLOYMENT INSURANCE TRUST FUND

Notes to the Financial Statements June 30, 2018 and 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Receivables

Taxes receivable in the Fund represents unemployment taxes due at year-end, net of an allowance for uncollectible amounts. The uncollectible amounts are based on collection experience and a review of the status of existing receivables.

Operating Revenue

Revenue is recorded when earned. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Operating revenue is inclusive of provision for allowances for uncollectible accounts.

Net Position

The net position of the Fund is reported as restricted net position, as the laws of the State of Maryland restrict the use of the Fund for payment of unemployment benefits only.

Other Post Employment Health Benefit Plan

The Fund's employees participate in the State of Maryland's Post Employment Health Benefit Plan. The State subsidizes a portion of the covered medical, dental, prescription, and hospitalization costs, depending on the type of insurance. Costs for postretirement benefits are for State retirees and are primarily funded by the State. The State does not distinguish employees by employer/State agency. For the years ended June 30, 2018 and 2017, the State did not allocate postemployment health care costs to participating employers and as a result did not require a contribution from the Fund. As such, the State has elected to maintain the entire Net OPEB Liability as a liability of the general fund of the State and has not allocated any balances to State entities including the Fund.

4. DEPOSITS

Collateral Risk

The Fund has \$1,235,395,306 and \$1,180,750,281, on deposit with the U.S. Treasury as of June 30, 2018 and 2017, respectively, which represents book and bank balances. Because these balances are on deposit with the U.S. Treasury, these amounts are not categorized in accordance with Government Accounting Standards Board (GASB) Statement No. 3, *Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements* or Statement No. 40, *Deposits and Investment Risks Disclosures*.

MARYLAND UNEMPLOYMENT INSURANCE TRUST FUND

Notes to the Financial Statements June 30, 2018 and 2017

4. DEPOSITS (continued)

Collateral Risk (continued)

Additionally, the Fund maintains escrow, clearing, benefit payment, and other miscellaneous accounts with local financial institutions. As of June 30, 2018, and 2017, the book balances of these accounts were \$3,110,478 and \$2,904,756, and the associated bank balances were \$3,045,399 and \$2,813,167, respectively, of which \$500,000 was collateralized by depository insurance, and \$2,545,399 and \$2,313,167, were collateralized by securities held by pledging financial trust department or agent in the Fund's name. For cash management purposes, the Fund seeks to keep a zero balance in this account; so excess funds can be placed on deposit with the U.S. Treasury.

The State Treasurer requires that financial institutions deposit collateral securities to secure the deposits of the State in each such institution. The amount of collateral to be pledged shall be established by rules and regulations promulgated by the State Treasurer.

Interest Rate Risk

Amounts on deposit with the U.S. Treasury are not subject to interest rate risk.

5. ACCOUNTS RECEIVABLE

Accounts receivable balances as of June 30, 2018 and 2017 have been disaggregated by type and presented separately in the table below:

	<u>2018</u>	<u>2017</u>
Employer taxes receivable	\$ 150,153,265	\$ 170,078,106
Benefit overpayments receivable	269,818,399	260,023,420
Other receivables	<u>1,548,000</u>	<u>1,834,000</u>
Total accounts receivable	421,519,664	431,935,526
Less: allowance for uncollectible	<u>277,857,887</u>	<u>278,719,536</u>
Total Accounts Receivable, Net	<u><u>\$ 143,661,777</u></u>	<u><u>\$ 153,215,990</u></u>

MARYLAND UNEMPLOYMENT INSURANCE TRUST FUND

Notes to the Financial Statements June 30, 2018 and 2017

6. CONTINGENCIES

The employer contribution operations and benefit payment functions of the Fund are subject to Federal compliance audits and related oversight. In addition, the Fund receives significant financial assistance from the U.S. Government. Entitlement to the resources is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable Federal regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantor. Any disallowances because of these audits and audits of the employer contribution operations and benefit payment functions become a liability of the Fund. As of June 30, 2018, and 2017, Fund management does not anticipate that material liabilities will result from such audits.

The financial assistance received from the U.S. Government to fund the administrative costs of the Fund is subject to audits. However, any disallowances resulting from these audits would be liabilities of the State's general fund and not the Fund as administrative costs are borne by the State's general fund.

7. NEW PRONOUNCEMENTS

The Fund has not completed the process of evaluating the impact that will result from adopting GASB No. 83, *Certain Asset Retirement Obligations*; GASB No. 88 *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements effective for the year ending June 30, 2019*; GASB No. 84, *Fiduciary Activities*; GASB No. 90, *Majority Equity Interests- an amendment of GASB Statements No. 14 and No. 61 effective for the year ending June 30, 2020*, and GASB No. 87, *Leases*, GASB No. 89 *Accounting for Interest Cost Incurred before the End of a Construction Period effective for the year ending June 30, 2021*. The Fund is, therefore, unable to disclose the impact that adopting GASB Statements No. 83, 84, 87, 88, 89, and 90 will have on its financial position and results of operations when such statements are adopted.