

Report 13-9
June 2013

Unemployment Reserve Fund

Department of Workforce Development

STATE OF WISCONSIN



Legislative Audit Bureau ■

Unemployment Reserve Fund

Department of Workforce Development

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State Auditor – Joe Chrisman

Audit Prepared by

Bryan Naab, *Deputy State Auditor for Financial Audit*
Tammi Richmond

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STATE OF WISCONSIN
Legislative Audit Bureau

22 East Mifflin Street, Suite 500
Madison, Wisconsin 53703
(608) 266-2818
Fax (608) 267-0410

www.legis.wisconsin.gov/lab

Toll-free hotline: 1-877-FRAUD-17

Joe Chrisman
State Auditor

June 14, 2013

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, 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 funded by the federal government, including extended and emergency unemployment benefits, were also paid. This audit report contains our unqualified opinion on the Unemployment Reserve Fund's financial statements and related notes for the fiscal years ended June 30, 2012, and June 30, 2011.

During fiscal year (FY) 2011-12, fund equity increased from a deficit of \$926.1 million as of June 30, 2011, to a deficit of \$612.4 million as of June 30, 2012, or by \$313.7 million. This was the first increase in fund equity since FY 1999-2000. The amount owed by the Fund on a loan from the federal government decreased from \$1.4 billion as of July 1, 2010, to \$926.2 million as of June 30, 2012, or by \$498.6 million. Interest in the amounts of \$42.3 million and \$35.8 million was paid on the loan in September 2011 and September 2012, respectively.

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 as of June 30 of the preceding year is less than \$300 million. Because the cash balance continues to be negative, the highest tax rate schedule applies in calendar year 2013.

We appreciate the courtesy and cooperation extended to us by staff in the Department of Workforce Development.

Respectfully submitted,

Joe Chrisman
State Auditor

JC/BN/ss

Introduction ■

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 is composed 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 unemployment benefits, such as emergency and extended 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, which together constitute their total state unemployment insurance tax.

The basic tax is credited to each employer's account and is based on that employer's unemployment experience rating. For example, employers with more employee layoffs pay more than those with fewer layoffs. The solvency tax is credited to the solvency account and is based on each employer's unemployment experience rating and payroll size. 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 currently in effect.

Wisconsin statutes include four unemployment insurance tax rate schedules. The highest tax rate schedule, which is currently in effect, is used when the Fund's cash balance as of June 30 of the preceding year is less than \$300 million. 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

The federal government funded emergency and extended unemployment benefits.

Until August 2010, it was possible for eligible individuals to receive unemployment benefits for up to 99 weeks, which included 26 weeks of regular unemployment benefits, 53 weeks of federally funded emergency benefits, and 20 weeks of federally funded extended benefits. However, not all unemployed individuals, such as those with a minimal prior work history, are eligible to receive unemployment benefits. Those who met eligibility requirements first received regular unemployment benefits, followed by emergency and then extended benefits. However, some of the federally funded benefits are no longer available because of declines in Wisconsin's unemployment rate or changes in federal law. For example, certain extended benefits ended in October 2010 and the remaining extended benefits ended in April 2012. In addition, certain emergency benefits have ended or have otherwise changed. As of May 12, 2013, eligible individuals may receive unemployment benefits for up to 63 weeks, including 26 weeks of regular unemployment benefits and 37 weeks of federally funded emergency benefits.

The average weekly regular unemployment benefit payment in 2012 was \$271.

Since January 2009, the minimum weekly regular unemployment benefit payment has been \$54 and the maximum payment has been \$363. Benefit recipients received an average weekly regular benefit of \$270 in 2011 and \$271 in 2012. As part of the federal Budget Control Act of 2011 and the American Taxpayer Relief Act of 2012,

federally funded emergency unemployment benefits were decreased by 10.7 percent beginning with the week ending April 6, 2013. Because regular unemployment benefits are funded by employer contributions, regular benefits were not reduced.

Unemployed individuals may file their initial benefit claim applications either by telephone or the internet. They then are typically required to contact a call center operated by DWD's Division of Unemployment Insurance, which verifies certain information and establishes the individual's eligibility and weekly benefit payment amounts. Subsequently, eligible individuals file weekly benefit claims either by telephone or the internet for as long as they continue to be unemployed. Eligible individuals must generally be available to work and must certify that they are searching for work. Although DWD may request documentation at any time, eligible individuals are not typically required to submit work-search documentation.

2013 Assembly Bill 40, the Governor's 2013-15 biennial budget proposal, includes a provision to increase the work-search requirement from two to at least four reasonable search actions for suitable work during a week of unemployment. A reasonable 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. In May 2013, the Joint Committee on Finance adopted the Governor's proposal, as well as a technical clarification that expressly permits DWD to require, by administrative rule, that a claimant perform more than four reasonable search actions per week. However, DWD would need to require a uniform number of reasonable work search actions for similar types of claimants.

2013 Wisconsin Act 11, which was enacted in May 2013, relates to the payment of unemployment benefits under a work-sharing program. This program would allow employers, subject to approval by DWD, to reduce worker hours in lieu of layoffs and would allow workers to collect federally funded unemployment benefits to offset a portion of the reduced earnings. The federal Middle Class Tax Relief and Job Creation Act of 2012 allows for increased federal funding of a work-share program through August 22, 2015.

Fund Balance

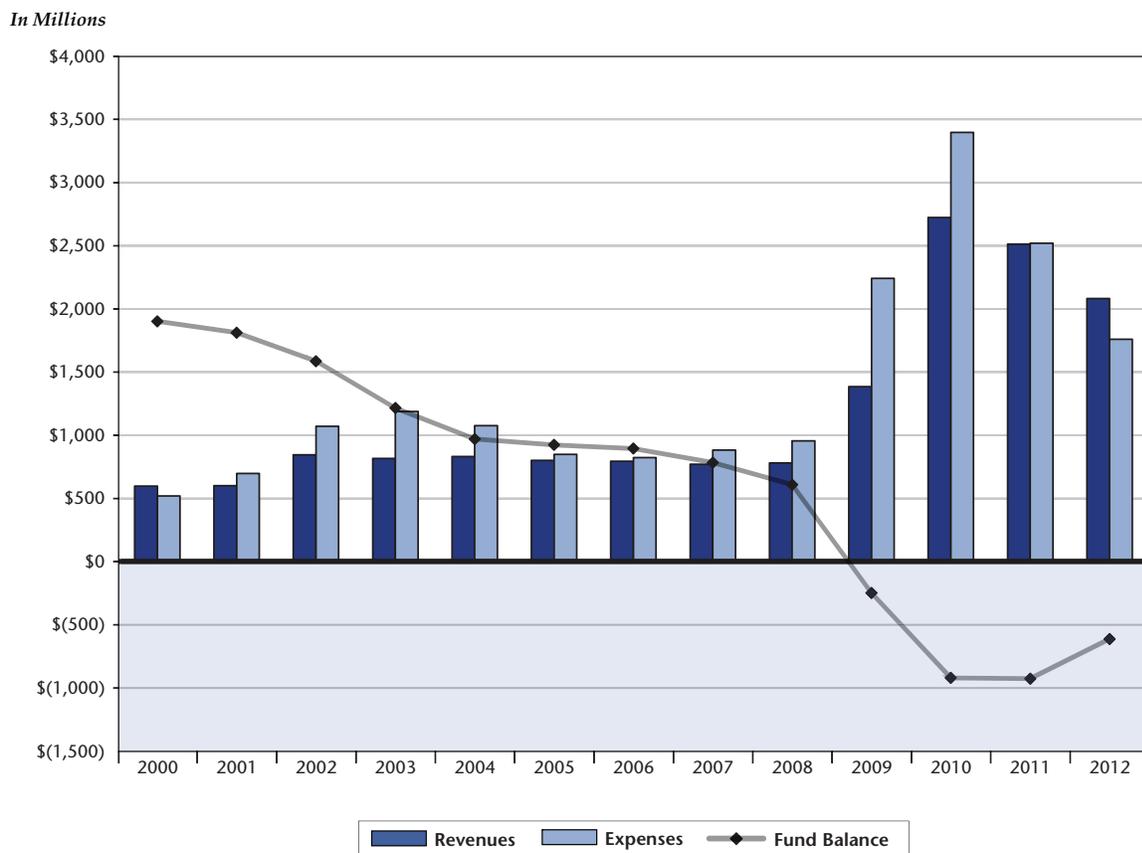
Programs established for unemployment purposes are intended to accumulate resources during periods of low unemployment to ensure the fund balance plus current-year employer taxes and interest earnings are sufficient to pay benefits during periods of high unemployment.

The Fund balance increased in FY 2011-12 for the first time since FY 1999-2000.

However, as shown in Figure 1, Wisconsin’s Unemployment Reserve Fund balance declined during times of both high and low unemployment because benefit payments and transfers had exceeded employer taxes and other revenues. In fiscal year (FY) 2011-12, the balance in the Fund increased for the first time since FY 1999-2000. This was because of increased tax collections from employers due, in part, to the higher taxable wage base, and a decrease in employer-funded benefits paid. Employer-funded benefits decreased due to a decline in the unemployment rate, the exhaustion of regular benefits for some individuals, and the addition of a one-week waiting period prior to the receipt of unemployment benefits. The one-week waiting period, which was created by 2011 Wisconsin Act 32, became effective January 1, 2012.

Figure 1

Unemployment Reserve Fund Revenues, Expenses, and Fund Balance¹
For Fiscal Year Ended June 30



¹ Revenues include employer taxes, interest earnings, and federal funds received for certain benefits. Expenses include benefits paid to unemployed individuals and transfers to other funds.

As of June 30, 2012, the Fund had a deficit balance of \$612.4 million. On that date, the total of all employer accounts had a positive balance of \$1.1 billion and the solvency account had a negative balance of \$1.7 billion, as shown in Table 1 .

Table 1

Unemployment Reserve Fund Balance
As of June 30
(in millions)

Account	2012	2011	Change
Employer Accounts	\$ 1,108.1	\$ 724.4	\$383.7
Solvency Account	(1,731.1)	(1,666.4)	(64.7)
Restricted Accounts ¹	10.6	15.9	(5.3)
Fund Balance	\$ (612.4)	\$ (926.1)	\$313.7

¹ A portion of the Fund's equity 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, interest 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. For example, transfers increased to \$497.8 million in FY 2010-11 and were \$199.1 million in FY 2012-13.

Table 2

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

Fiscal Year	Amount
2008-09	\$194.7
2009-10	407.0
2010-11	497.8
2011-12	293.7
2012-13	199.1

Employers who benefit from these transfers are typically those that have high 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.

The deficit balance in the solvency account contributes to the overall deficit balance of the Fund and, consequently, to higher tax rates paid by employers. The deficit in the solvency account continues to increase, in part, because the Unemployment Reserve Fund is currently not earning any interest.

Some steps have been taken to improve the balance of the solvency account. As noted, 2007 Wisconsin Act 59 increased the taxable wage base and the tax table was restructured so that more unemployment tax dollars are credited to the solvency account instead of to employer accounts. For employers with positive account balances, their solvency tax rate increased by 0.2 percent with a corresponding 0.2 percent decrease in their basic tax rate. For employers with negative account balances, their solvency tax rate increased by 0.4 percent with a corresponding decrease in their basic tax rate.

Federal Borrowing

Wisconsin has borrowed federal funds twice in the history of the Unemployment Insurance program.

When the Unemployment Reserve Fund was depleted in February 2009, the Fund began to borrow from the federal government. This is the second time in the history of the Unemployment Insurance program that Wisconsin has borrowed from the federal government to pay benefits.

As of June 30, 2012, the loan balance was \$926.2 million. The loan balance fluctuates depending on the timing of employer tax payments and was \$485.7 million as of May 21, 2013.

To pay interest on the federal loan, special assessments were made on employers in August 2011 and August 2012.

Under current federal rules, interest on the outstanding loan balance began to accrue on January 1, 2011, with the first interest payment due on September 30, 2011. Subsequent interest payments will be due each year thereafter until the balance has been repaid. Federal rules prohibit using funds available in the Fund to pay the interest on federal loans. Therefore, to raise funds 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. Amounts collected through these special assessments, along with interest and penalties paid by delinquent employers, are accounted for in the Unemployment Interest Payment Fund, which had \$10.7 million available as of April 30, 2013. Wisconsin paid \$42.3 million in interest to the federal government for the period from January 1, 2011, through September 30, 2011. Wisconsin paid \$35.8 million in interest for the period from October 1, 2011, through September 30, 2012. As of May 21, 2013, Wisconsin had accrued \$14.7 million in interest. The current interest rate is 2.58 percent.

Because Wisconsin had an outstanding federal loan balance for two consecutive years in 2010 and 2011, the federal government began assessing employers an additional 0.3 percent in federal unemployment taxes on the first \$7,000 of taxable wages per employee. During FY 2011-12, this additional assessment, which is technically a reduction in a credit related to federal unemployment taxes, generated \$45.7 million that was paid by employers to the federal government and subsequently applied to Wisconsin's federal loan balance. This additional assessment increased to 0.6 percent on the first \$7,000 of taxable wages per employee for taxes collected in 2013 and is expected to increase to 0.9 percent in 2014 and to 1.2 percent in 2015 if the federal loan continues to exist. As of May 2013, DWD staff expect the loan will be paid off by the end of 2014 or early 2015.

Other Proposals

The UIAC has considered several proposals to improve the financial condition of the Fund and address other aspects of the Unemployment Insurance program. DWD presented 18 proposals to the UIAC in November 2012. Although some of these proposals are administrative in nature, others would directly affect benefits and the overall solvency of the Fund. For example, DWD proposed reducing the number of "quit" exceptions from 18 to 7. Quit exceptions allow an employee to be eligible for unemployment benefits even though he or she voluntarily quit, such as due to the health of the individual or a family member or to relocate with a spouse. On April 1, 2013, the UIAC voted to retain the majority of the quit exceptions.

On April 1, 2013, a group of legislators submitted a letter to the UIAC in support of some of DWD's original proposals, such as the reduction of quit exceptions. Some items included in the letter were incorporated into legislation that was pending at the time this report was finalized for publication.

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Audit Opinion ■

Independent Auditor's Report on the Financial Statements of the State of Wisconsin Unemployment Reserve Fund

We have audited the accompanying financial statements of the State of Wisconsin Unemployment Reserve Fund as of and for the years ended June 30, 2012, and June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the Unemployment Reserve Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, 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, 2012, or June 30, 2011, and the changes in its financial position, and where applicable its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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, 2012, and June 30, 2011, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 15, 2013, on our consideration of the Unemployment Reserve Fund's internal control over financial reporting; our tests of its compliance with certain provisions of laws and regulations; 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 considered in assessing the results of our audits.

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 35 is presented for the purpose of disclosing the calculation of the portion of the Unemployment Reserve Fund's cash balance related to taxable employers as of June 30, 2012, and June 30, 2011. This cash balance is used to determine the unemployment tax rate schedule to be used during the following calendar year. This supplementary information is not a required part of the financial statements. 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 Schedule of Cash Balance Related to Taxable Employers 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 13 through 19 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, 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 audits 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.

LEGISLATIVE AUDIT BUREAU

May 15, 2013

by 
Bryan Naab
Deputy State Auditor for Financial Audit

Management's Discussion and Analysis ■

Prepared by Management of the Unemployment Reserve Fund

This management 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, 2011, and June 30, 2012. The financial statements, notes, and this discussion are the responsibility of the management of the Fund.

Financial Summary (Highlights)

The liabilities of the Unemployment Reserve Fund exceeded assets at the close of FY 2011-12 by approximately \$612.4 million. With the exception of \$10.6 million in certain federal allocations, the Fund's equity, if positive, could be used only to pay unemployment benefits to eligible unemployed persons.

The Fund's equity increased by \$308.0 million during the two-year period from July 1, 2010, through June 30, 2012. Unemployment taxes paid by employers increased each fiscal year compared to the previous year. In addition, benefits paid to unemployed workers decreased each fiscal year.

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 Department of Workforce Development. 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 127,000 employers subject to the taxing provisions of ch. 108, Wis. Stats. However, during FY 2010-11 and FY 2011-12, the Fund also received a significant amount of federal funding to pay for emergency and extended 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, in certain circumstances, to refund 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 and the period between February 2009 and December 2010, any federal borrowing carries interest charges. The interest charges may not be funded from regular employer tax contributions.

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 is not reported within these financial statements.

Financial Statements

These financial statements are intended to show the Fund's financial position, results of operations, and cash flows for FY 2010-11 and FY 2011-12. The Balance Sheet reports the Fund's assets and liabilities. The Statement of Revenues, Expenses, and Changes in Fund Equity reports all Unemployment Reserve Fund revenues, expenses, and transfers regardless of when cash is received or paid. This statement also shows the Fund's equity 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 or used by operating activities.

Assets

The Fund's assets consist of cash and cash equivalents and receivables. Table A shows that total assets decreased by \$124.0 million between June 30, 2010, and June 30, 2011, and by \$72.6 million between June 30, 2011, and June 30, 2012.

Table A
Assets
(in millions)

	June 30, 2010	June 30, 2011	Change	June 30, 2012	Change
Cash and Cash Equivalents	\$234.3	\$ 18.6	\$(215.7)	\$ 13.4	\$ (5.2)
Receivables	402.8	494.5	91.7	427.1	(67.4)
Total Assets	\$637.1	\$513.1	\$(124.0)	\$440.5	\$(72.6)

Cash and cash equivalents decreased by \$215.7 million during FY 2010-11, in part, due to the repayment strategy on advances from the federal government. While the Fund received \$650.6 million in advances from the federal government in FY 2010-11, it also repaid \$752.4 million to minimize the interest incurred on those advances as interest began accruing on January 1, 2011.

Liabilities

As shown in Table B, the Fund's liabilities decreased by \$118.3 million between June 30, 2010, and June 30, 2011, and by \$386.2 million between June 30, 2011, and June 30, 2012.

Table B
Liabilities
(in millions)

	June 30, 2010	June 30, 2011	Change	June 30, 2012	Change
Advance from Federal Government	\$1,424.8	\$1,323.0	\$(101.8)	\$ 926.2	\$(396.8)
Benefit Overpayments Due Others	17.5	35.4	17.9	46.7	11.3
Benefits Payable	71.0	50.8	(20.2)	33.3	(17.5)
Other Liabilities	44.2	30.0	(14.2)	46.8	16.8
Total Liabilities	\$1,557.5	\$1,439.2	\$(118.3)	\$1,053.0	\$(386.2)

During FY 2008-09, the Fund depleted its reserves and began to borrow from the federal government. Annual interest is incurred on the amount borrowed and, therefore, the Fund uses available cash to repay the advance. As a result, the advance from the federal government decreased by \$498.6 million between June 30, 2010, and June 30, 2012.

Benefits payable decreased by \$37.7 million between June 30, 2010, and June 30, 2012. The decrease is the result of the average unemployment rate declining from 8.6 percent in FY 2009-10 to 7.8 percent in FY 2010-11 and to 7.1 percent in FY 2011-12.

Fund Equity

As shown in Table C, the Fund's equity decreased by \$5.7 million between June 30, 2010, and June 30, 2011, and then increased by \$313.7 million between June 30, 2011, and June 30, 2012.

Table C

Fund Equity
(in millions)

	June 30, 2010	June 30, 2011	Change	June 30, 2012	Change
Employer Accounts	\$ 388.8	\$ 724.4	\$335.6	\$ 1,108.1	\$ 383.7
Solvency Account	(1,331.7)	(1,666.4)	(334.7)	(1,731.1)	(64.7)
Restricted for Administration	22.5	15.9	(6.6)	10.6	(5.3)
Total Fund Equity	\$ (920.4)	\$ (926.1)	\$ (5.7)	\$ (612.4)	\$313.7

Charges to the solvency account during each fiscal year significantly exceeded revenues credited to the account. 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. 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, \$197.2 million in benefit payments were charged directly to the solvency account during FY 2010-11, and \$131.5 million in FY 2011-12. 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 \$497.8 million during FY 2010-11 and \$293.7 million during FY 2011-12. In addition to causing the solvency account to become more negative, these transfers are the main reason for the significant increase to employer accounts during each fiscal year.

Operating Revenues

The two major sources of operating revenues for the Fund are employer tax contributions, including those collected through a Federal Unemployment Tax Act (FUTA) 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 \$121.4 million during FY 2010-11 and by \$431.0 million during FY 2011-12.

Table D

Operating Revenues
(in millions)

	FY 2009-10	FY 2010-11	Change	FY 2011-12	Change
Employer Contributions	\$ 828.6	\$1,087.3	\$ 258.7	\$1,181.2	\$ 93.9
FUTA Credit Reduction	0.0	0.0	0.0	45.7	45.7
Benefit Reimbursements	1,796.5	1,417.4	(379.1)	846.9	(570.5)
Forfeitures and Other Revenues	10.1	9.1	(1.0)	9.0	(0.1)
Total Operating Revenues	\$2,635.2	\$2,513.8	\$(121.4)	\$2,082.8	\$(431.0)

Employer contributions, including those collected through the FUTA credit reduction, increased by \$398.3 million between FY 2009-10 and FY 2011-12 because both the average basic tax rate and the taxable wage base increased during this period. The average basic tax rate (that portion of the total tax payment credited to the employer's account balance) increased from 2.4 percent in calendar year 2010 to 2.6 percent in 2011 and to 2.7 percent in 2012. The taxable wage base increased from \$12,000 to \$13,000 in calendar year 2011 and will increase to \$14,000 in 2013.

Because the Fund had a loan balance outstanding on both January 1, 2010, and January 1, 2011, the federal government began recovering the loan from employers by incrementally reducing the employers' FUTA credit beginning with the tax due for 2011. Collections resulting from the FUTA credit reductions are immediately applied against the Fund's outstanding loan balance.

The decrease in benefit reimbursements is a result of the average number of individuals claiming temporary federally funded unemployment benefits per week decreasing from 88,785 in calendar year 2010 to 60,873 in 2011 and to 42,934 in 2012.

Expenses and Transfers

As shown in Table E, the Fund's operating expenses decreased by \$879.2 million during FY 2010-11 and by \$749.3 million during FY 2011-12.

Table E

Expenses and Transfers (in millions)

	FY 2009-10	FY 2010-11	Change	FY 2011-12	Change
Benefits Paid on Behalf of:					
Taxable Employers	\$1,591.1	\$1,092.0	\$(499.1)	\$ 915.4	\$(176.6)
Other Entities	1,801.2	1,421.1	(380.1)	848.4	(572.7)
Total Operating Expenses	\$3,392.3	\$2,513.1	\$(879.2)	\$1,763.8	\$(749.3)
Transfer to Pay Administrative Expenses in General Fund and Other Nonoperating Expenses					
	\$4.6	\$6.5	\$1.9	\$5.3	\$(1.2)

The decrease in benefits paid on behalf of taxable employers is the result of the average unemployment rate decreasing from 8.6 percent in FY 2009-10 to 7.8 percent in FY 2010-11 and to 7.1 percent in FY 2011-12. The decrease in benefits paid on behalf of governmental units, nonprofit organizations, and others is a result of the average number of individuals claiming temporary federally funded unemployment benefits per week decreasing from 88,785 in calendar year 2010 to 60,873 in 2011 and to 42,934 in 2012.

Currently Known Facts, Decisions, and Conditions

As of April 1, 2013, the State of Wisconsin owes \$11.9 million to the U.S. Treasury in interest accrued on the Fund's outstanding federal advance from October 1, 2012, through March 31, 2013. Interest is accounted for in the State of Wisconsin's Unemployment Interest Payment Fund and may not be paid from regular unemployment funds or from federal funds. The Unemployment Interest Payment Fund is funded by 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.

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
Division of Unemployment Insurance
Department of Workforce Development
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 ■

Balance Sheet

June 30, 2012 and June 30, 2011

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 2,135,436	\$ 2,055,477
Employer Accounts Receivable:		
Taxable Employers (Net of Allowance)	292,821,435	289,491,789
Governmental Units and Nonprofit Organizations (Net of Allowance)	5,345,115	6,718,818
Combined Wage Claim Receivables	<u>2,356,530</u>	<u>2,637,709</u>
Net Current Employer Accounts Receivable	<u>300,523,080</u>	<u>298,848,316</u>
Other Receivables:		
Overpayments to Claimants (Net of Allowance)	31,217,381	25,866,214
Federally Funded Unemployment Benefit Programs	14,727,763	87,294,746
Due from State of Wisconsin (Note 4)	<u>583,665</u>	<u>831,713</u>
Net Current Other Receivables	<u>46,528,809</u>	<u>113,992,673</u>
Total Current Assets	<u>349,187,325</u>	<u>414,896,466</u>
Noncurrent Assets:		
Restricted Cash for Administration	11,287,742	16,520,808
Taxable Employer Accounts Receivable	30,804,344	40,799,223
Overpayments to Claimants	<u>49,283,348</u>	<u>40,911,495</u>
Total Noncurrent Assets	<u>91,375,434</u>	<u>98,231,526</u>
TOTAL ASSETS	<u>\$ 440,562,759</u>	<u>\$ 513,127,992</u>
LIABILITIES AND FUND EQUITY		
Current Liabilities:		
Advance from Federal Government	\$ 397,349,811	\$ 351,411,642
Overdrafts	6,424,914	15,983,806
Benefits Payable	33,252,683	50,786,778
Employer Overpayments	3,558,544	3,932,805
Benefit Overpayments Due Employers, Other States, and Federal Government	46,736,663	35,374,840
Combined Wage Claim Plan Liabilities	2,059,826	4,041,218
Due to Federal Government	30,648,240	1,118,769
Due to State of Wisconsin (Note 4)	3,947,174	4,880,093
Other	<u>117,119</u>	<u>146,934</u>
Total Current Liabilities	<u>524,094,974</u>	<u>467,676,885</u>
Noncurrent Liabilities:		
Advance from Federal Government	<u>528,889,554</u>	<u>971,562,099</u>
Total Liabilities	<u>1,052,984,528</u>	<u>1,439,238,984</u>
Fund Equity (Note 1):		
Employer Accounts	1,108,048,156	724,388,224
Solvency Account	(1,731,098,517)	(1,666,440,461)
Restricted for Administration	<u>10,628,592</u>	<u>15,941,245</u>
Total Fund Equity	<u>(612,421,769)</u>	<u>(926,110,992)</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 440,562,759</u>	<u>\$ 513,127,992</u>

The accompanying notes are an integral part of this statement.

Statement of Revenues, Expenses, and Changes in Fund Equity for the Years Ended June 30, 2012 and June 30, 2011

	For the Year Ended June 30, 2012	For the Year Ended June 30, 2011
OPERATING REVENUES		
Employer Contributions	\$ 1,181,192,533	\$ 1,087,270,933
Federal Unemployment Tax Act Credit Reduction	45,705,209	0
Benefit Reimbursements (Note 3)	846,868,597	1,417,443,091
Forfeitures and Other Revenues	9,065,449	9,132,066
Total Operating Revenues	2,082,831,788	2,513,846,090
OPERATING EXPENSES		
Benefits Paid or Provided on Behalf of:		
Taxable Employers	915,432,690	1,091,997,036
Governmental Units, Nonprofit Organizations, and Other Organizations (Note 3)	846,906,889	1,417,443,091
Adjustment for Allowance—Claimants (Note 2E)	1,490,333	3,619,868
Total Operating Expenses	1,763,829,912	2,513,059,995
OPERATING INCOME	319,001,876	786,095
NONOPERATING REVENUES		
Investment Earnings	0	0
Total Nonoperating Revenues	0	0
INCOME BEFORE TRANSFERS	319,001,876	786,095
TRANSFERS		
Transfer to State of Wisconsin General Fund	(5,312,653)	(6,545,266)
NET CHANGE IN FUND EQUITY	313,689,223	(5,759,171)
Fund Equity at the Beginning of the Year	(926,110,992)	(920,351,821)
Fund Equity at the End of the Year (Note 1)	<u>\$ (612,421,769)</u>	<u>\$ (926,110,992)</u>

The accompanying notes are an integral part of this statement.

Statement of Cash Flows for the Years Ended June 30, 2012 and June 30, 2011

	<u>For the Year Ended June 30, 2012</u>	<u>For the Year Ended June 30, 2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from:		
Employer Contributions	\$ 1,187,266,666	\$ 1,014,096,419
Federal Unemployment Tax Act Credit Reduction	45,705,209	0
Benefit Reimbursements	950,853,812	1,372,136,551
Other Operating Revenues	59,329,111	48,382,649
Cash Payments for:		
Benefits	<u>(1,836,781,571)</u>	<u>(2,529,206,347)</u>
Net Cash Provided (Used) by Operating Activities	<u>406,373,227</u>	<u>(94,590,728)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers to State of Wisconsin General Fund	(5,233,066)	(6,980,073)
Cash Overdraft Implicitly Financed (Repaid)	(9,558,892)	(12,401,374)
Advance from Federal Government	909,529,118	650,581,824
Repayment of Advance from Federal Government	<u>(1,306,263,494)</u>	<u>(752,376,625)</u>
Net Cash Used by Noncapital Financing Activities	<u>(411,526,334)</u>	<u>(121,176,248)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Earnings	<u>0</u>	<u>0</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(5,153,107)	(215,766,976)
Cash and Cash Equivalents at the Beginning of the Year	<u>18,576,285</u>	<u>234,343,261</u>
Cash and Cash Equivalents at the End of the Year	<u>\$ 13,423,178</u>	<u>\$ 18,576,285</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Income	<u>\$ 319,001,876</u>	<u>\$ 786,095</u>
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Provision for Uncollectible Accounts	11,835,831	19,081,323
Changes to Assets and Liabilities:		
Decrease (Increase) in Employer Accounts Receivables	1,814,206	(80,549,954)
Decrease (Increase) in Other Receivables	53,762,089	(30,260,436)
Increase (Decrease) in Liabilities	<u>19,959,225</u>	<u>(3,647,756)</u>
Total Adjustments	<u>87,371,351</u>	<u>(95,376,823)</u>
Net Cash and Cash Equivalents Provided (Used) by Operating Activities	<u>\$ 406,373,227</u>	<u>\$ (94,590,728)</u>

The accompanying notes are an integral part of this statement.

Notes to the Financial Statements ■

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.

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 equity, 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. 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 equity 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 (GAAP) for proprietary funds. The Fund applies all applicable Governmental Accounting Standards Board (GASB) statements. Financial Accounting Standards Board statements effective after November 30, 1989, are not applied in accounting for operations of the Fund. The Fund is accounted for using the economic resources measurement focus. With this measurement focus, all assets and liabilities are included on the Balance Sheet. 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 Equity 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 12 months, are reported as noncurrent assets on the Balance Sheet.

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 12 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 benefit overpayments are 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 12 months, are reported as noncurrent assets on the Balance Sheet.

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 Allowance, 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.

3. BENEFIT REIMBURSEMENTS

The amounts reported as benefits paid or provided on behalf of governmental units, nonprofit organizations, and other organizations, as well as related revenues reported as benefit reimbursements, consist of several types of benefits, including benefits reimbursed by the federal government under various federally funded unemployment benefit programs and benefits reimbursed for former federal employees. Benefit reimbursements are summarized in the following table.

<u>Type of Benefit</u>	<u>FY 2010-11 (in millions)</u>	<u>FY 2011-12 (in millions)</u>
Benefits reimbursed by the federal government under various unemployment benefit programs	\$1,308.78	\$754.67
Benefits reimbursed by the federal government for former federal employees	24.95	18.62
Benefits reimbursed by the State of Wisconsin, electing local governmental units, and electing nonprofit organizations for former employees	72.73	64.13
Benefits reimbursed by other states under the Combined Wage Claim Plan	10.98	9.49
Bad debt expense for reimbursable employers	<u>(0.00)</u>	<u>(.04)</u>
Total	<u>\$1,417.44</u>	<u>\$846.87</u>

4. AMOUNTS DUE TO/FROM STATE OF WISCONSIN

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's General Fund. The amount reported as "Due from State of Wisconsin" results from the time lag between when benefits were paid out of the Unemployment Reserve Fund and when reimbursements were received.

The amount reported as "Due to State of Wisconsin" consists primarily of state income taxes withheld from claimant benefit checks but not yet paid to the General Fund.

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Supplementary Information ■

**Schedule of Cash Balance Related to Taxable Employers
June 30, 2012 and June 30, 2011**

	June 30, 2012	June 30, 2011
CASH BALANCE		
Cash and Cash Equivalents	\$ 2,135,436	\$ 2,055,478
Overdrafts	(6,424,914)	(15,983,806)
Net Cash Balance	(4,289,478)	(13,928,328)
INCREASES		
Employer Accounts Receivable:		
Government Units and Nonprofit Organizations	4,084,921	4,810,565
Combined Wage Claim Receivables	2,114,026	2,343,385
Total Employer Accounts Receivable	6,198,947	7,153,950
Other Receivables:		
Federally Funded Unemployment Benefit Programs	495,051	55,212,728
Due from State of Wisconsin	24,850	77,313
Total Other Receivables	519,901	55,290,041
Total Increases	6,718,848	62,443,991
DECREASES		
Advance from Federal Government	926,239,365	1,322,973,741
Employer Overpayments	6,632,536	6,517,895
Due to State of Wisconsin	3,288,024	4,300,531
Due to Federal Government	30,648,240	1,118,768
Benefit Overpayments Due Other States	89,659	56,615
Other	102,200	135,526
Total Decreases	967,000,024	1,335,103,076
Cash Balance Related to Taxable Employers	<u>\$ (964,570,654)</u>	<u>\$ (1,286,587,413)</u>

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

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

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

The Schedule of Cash Balance Related to Taxable Employers as of June 30, 2011, and June 30, 2012, 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 2011 because the June 30, 2010 balance was -\$1,205,716,367, which is less than the \$300 million level specified in Wisconsin statutes. Tax rate schedule A was also in effect during 2012 because the June 30, 2011 balance was -\$1,286,587,413. Tax rate schedule A will again be in effect during 2013 because the June 30, 2012 balance was -\$964,570,654.

A. Net Cash Balance

The cash and cash equivalent balance reported in the Unemployment Reserve Fund 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 following items:

- Employer accounts receivable from governmental units and nonprofit organizations, gross of the allowance for uncollectible accounts, and from Combined Wage Claims.
- Receivables for federally funded unemployment benefit payments.
- Receivables for state-funded unemployment benefit payments.

C. Decreases

The net cash balance is reduced for the following items:

- Advance from the federal government.
- Employer overpayments of contributions.
- Cash receipts for interest and penalty assessments, state withholding taxes, and federal loan interest assessments to be remitted to the State of Wisconsin.
- Cash receipts for benefit overpayments to be remitted to the federal government.
- Cash receipts for benefit overpayments to be remitted to other states.
- Other cash receipts to be remitted elsewhere, such as federal withholding taxes.

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Report on Internal Control and Compliance ■

Independent Auditor's 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

We have audited the financial statements of the State of Wisconsin Unemployment Reserve Fund as of and for the years ended June 30, 2012, and June 30, 2011, and have issued our report thereon dated May 15, 2013. 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

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, we considered the Unemployment Reserve Fund's internal control as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 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 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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses as defined in the preceding paragraph.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Unemployment Reserve Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, 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*.

This independent auditor's report is intended solely for the information and use of the Unemployment Reserve Fund's staff, the Department of Workforce Development's management, and the Wisconsin Legislature. This report is a matter of public record and its distribution is not limited. However, because we do not express an opinion on the effectiveness of the Unemployment Reserve Fund's internal control or on compliance, this report is not intended to be used by anyone other than these specified parties.

May 15, 2013

LEGISLATIVE AUDIT BUREAU

by 

Bryan Naab

Deputy State Auditor for Financial Audit