

**MARYLAND UNEMPLOYMENT INSURANCE TRUST FUND
AN ENTERPRISE FUND OF THE STATE OF MARYLAND**

**FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2023**



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**MARYLAND UNEMPLOYMENT INSURANCE TRUST FUND
TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2023**

INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
STATEMENTS OF NET POSITION	4
STATEMENTS OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION	5
STATEMENTS OF CASH FLOWS	6
NOTES TO FINANCIAL STATEMENTS	7



INDEPENDENT AUDITORS' REPORT

Assistant Secretary
of the Division of Unemployment Insurance
Baltimore, Maryland

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Maryland Unemployment Trust Fund (the Fund), an enterprise fund of the State of Maryland, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Fund as of June 30, 2023, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Fund, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1, the accompanying financial statements present only the transactions of the Fund, and do not purport to, and do not present fairly the financial position of the State of Maryland as of June 30, 2023, and the changes in its financial position and cash flows for the year then ended in accordance with accounting principle generally accepted in the United States of America. Our opinion is not modified with the respect to this matter.

As discussed in Note 8 to the financial statements, the 2022 financial statements have been restated to correct an understatement of restricted net position on the statement of net position. Our opinion is not modified with respect to this matter.

Other Matter

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements are not affected by this missing information.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Assistant Secretary
of the Division of Unemployment Insurance

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2024, on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Baltimore, Maryland
March 12, 2024

MARYLAND UNEMPLOYMENT INSURANCE TRUST FUND
STATEMENT OF NET POSITION
JUNE 30, 2023

	<u>2023</u>
ASSETS	
Cash and Cash Equivalents	\$ 151,857,868
Cash on Deposit with Federal Unemployment Trust Fund	1,691,542,896
Accounts Receivable, Net Allowance of \$723,920,745 and \$662,727,734	<u>252,345,688</u>
Total Assets	2,095,746,452
LIABILITIES AND NET POSITION	
Benefits Payable	<u>122,845,931</u>
Total Liabilities	<u>122,845,931</u>
NET POSITION	
Restricted for Unemployment Benefits	<u><u>\$ 1,972,900,521</u></u>

See accompanying Notes to Financial Statements.

**MARYLAND UNEMPLOYMENT INSURANCE TRUST FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION
YEAR ENDED JUNE 30, 2023**

	2023	
OPERATING REVENUE		
Employer Contributions	\$ 557,548,781	
Reimbursable Employer Payments	19,316,449	
Overpayment Collections	66,551,228	
Penalties, Fines and Interest	4,469,051	
Changes in Allowances for Uncollectible Accounts	(61,193,011)	
Operating Revenue, Net of Provision	586,692,498	1
OPERATING EXPENSES		
Benefits - State	342,244,253	
Benefits - Federal	60,902,543	
Total Operating Expenses	403,146,796	
OPERATING REVENUE	183,545,702	
NONOPERATING REVENUE		
Federal Grants	61,540,044	
Interest Income	26,983,466	
Total Nonoperating Revenue	88,523,510	
CHANGE IN NET POSITION	272,069,212	
Net Position - Beginning of Year (As Restated)	1,700,831,309	
NET POSITION - END OF YEAR	\$ 1,972,900,521	

See accompanying Notes to Financial Statements.

MARYLAND UNEMPLOYMENT INSURANCE TRUST FUND
STATEMENT OF CASH FLOWS
JUNE 30, 2023

	2023
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Employers	\$ 559,303,986
Payments to Claimants	<u>(388,565,379)</u>
Net Cash Provided by (Used by) Operating Activities	<u>170,738,607</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Income	<u>26,983,466</u>
Net Cash Provided by Investing Activities	<u>26,983,466</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Receipts from Federal Grants	<u>61,540,044</u>
Net Cash Provided by Noncapital Financing Activities	<u>61,540,044</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	259,262,117
Cash and Cash Equivalents - Beginning of Year	<u>1,584,138,647</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 1,843,400,764</u></u>
RECONCILIATION OF OPERATING REVENUE TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Revenue	\$ 183,545,702
Net Changes in Operating Assets and Liabilities:	
Accounts Receivable, Employer Taxes, Interest, Penalty Receivable	(27,388,513)
Benefits Payable	<u>14,581,418</u>
Net Cash Provided by (Used by) Operating Activities	<u><u>\$ 170,738,607</u></u>

See accompanying Notes to Financial Statements.

MARYLAND UNEMPLOYMENT INSURANCE TRUST FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 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), the accompanying financial statements present only the transactions of the Fund, and do not purport to, and do not present fairly the financial position of the State of Maryland as of June 30, 2023. 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. Employer contributions are not used to support administrative costs. The Fund administrative costs are reported in the State of Maryland's Annual Comprehensive Financial Report (ACFR).

NOTE 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, Federal-State extended benefits are available to workers who have exhausted their regular benefits.

Unemployment Insurance Financing

Contributions (employer taxes) are paid by employers to support the Fund. The taxes are based on the employer's taxable wages paid to employees. Employers are required to pay Federal and State UI taxes. The State of Maryland UI tax is assessed quarterly based on a rate determined annually for each contributing employer. The range of rates effective for 2023 was 1.00% to 10.5% on the first \$8,500 on employee's taxable wages paid during a calendar year. Employers are required to pay FUTA annually on the first \$7,000 on employee's taxable wages during a calendar year. The FUTA rate was 6.0% for calendar year 2023, and is subject to change for employers that are not compliant with the State's requirements.

MARYLAND UNEMPLOYMENT INSURANCE TRUST FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 2 FUND DESCRIPTION

Unemployment Insurance Financing (Continued)

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 assists with 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, 2023.

Local Perspective

Maryland employers remit State UI payments directly to a local bank deposit clearing account. The Maryland Office of Unemployment Insurance (OUI) wires the day's opening available balance in the depository account to the account maintained by the U.S. Federal Treasury (the Treasury). Additionally, OUI determines the amount of funds required to support the benefit payment account. Only nominal balances are maintained in both the depository (clearing) and benefit payment accounts.

The employer taxes paid and claimant benefits issued are affected by the economic climate. Benefit payments normally increase during a recession which increases the employer taxes paid on employee taxable wages.

NOTE 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.

MARYLAND UNEMPLOYMENT INSURANCE TRUST FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Accounts Receivable

Employer Contributions Receivable are unemployment taxes outstanding at year-end, net of an allowance for uncollectible amounts.

Reimbursable Employer Receivable are benefit charges from non-profit, governmental entities and federally recognized Indian Tribes employers that have been billed but are outstanding at year-end.

Overpayments Collections Receivable are outstanding benefit payments made to ineligible claimants.

Other receivables consist of outstanding amounts due from the State of Maryland.

The total receivables due at year-end are net of an allowance for uncollectible amounts. The estimate for uncollectible amounts is based on collection experience and a review of the status of existing receivables.

Operating Revenue

Revenue is recorded when earned. Operating revenue is inclusive of provision for allowances for uncollectible amounts.

Non-Operating Revenue

Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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.

MARYLAND UNEMPLOYMENT INSURANCE TRUST FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 4 DEPOSITS

Collateral Risk

The Fund has \$1,691,542,896 on deposit with the U.S. Treasury as of June 30, 2023, which represents book and bank balances. These accounts are the maintained and managed by U.S. Treasury, 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*.

Additionally, the Fund maintains escrow, clearing, benefit payment, and other miscellaneous accounts with local financial institutions. As of June 30, 2023, the book balances of these accounts were \$151,466,868 and the associated bank balances were \$170,884,562 of which \$500,000 was collateralized by federal depository insurance and \$170,384,562 were collateralized by securities held by the 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, 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.

NOTE 5 ACCOUNTS RECEIVABLE

Accounts receivable balances as of June 30, 2023 have been disaggregated by type and presented separately in the table below:

	<u>2023</u>
Employer Contributions Receivable	\$ 305,064,689
Reimbursable Employer Receivable	47,142,398
Overpayments Collections Receivable	614,898,586
Other Receivables- State of Maryland	<u>9,160,760</u>
Total Accounts Receivable	976,266,433
Less: Allowance for Uncollectible Receivable	<u>(723,920,745)</u>
Total Accounts Receivable, Net	<u><u>\$ 252,345,688</u></u>

MARYLAND UNEMPLOYMENT INSURANCE TRUST FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 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, 2023, 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.

NOTE 7 RELATED PARTY

The State reimburses the Fund for employer taxes derived from unemployment benefits paid to former employees of State agencies. As of June 30, 2023, the total employer charges paid to the Fund were \$4,320,209 and total receivables due to the Fund were \$9,160,760.

NOTE 8 RESTATEMENT OF BEGINNING NET POSITION

During the year ended June 30, 2023, the Fund identified an error in previously reported cash and cash equivalents resulting in a \$118,497,617 understatement of restricted net position on the statement of net position as June 30, 2022. The Fund corrected these errors. The restatement for the correction of the errors is as follows:

	Unemployment Trust Enterprise Fund
Beginning Net Position as Previously Reported	\$ 1,582,333,692
Restatement	118,497,617
Beginning Net Position as Restated	\$ 1,700,831,309



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