

McGladrey & Pullen

Certified Public Accountants

State of Illinois Department of Employment Security

Individual Nonshared Governmental Funds
Individual Nonshared Proprietary Fund
Financial Statements
For the Year Ended June 30, 2005
Performed as Special Assistant Auditors
for the Auditor General, State of Illinois

State of Illinois
Department of Employment Security

Financial Statements
For the Year Ended June 30, 2005

Table of Contents

	<u>Page(s)</u>
Agency Officials	1
<u>Individual Nonshared Governmental Funds:</u>	
Financial Statement Report Summary	2
Independent Auditor's Report	3-4
Individual Nonshared Governmental Fund Financial Statements:	
Balance Sheets	5
Statements of Revenues, Expenditures and Changes in Fund Balances	6
Notes to Financial Statements	7-17
<u>Individual Nonshared Proprietary Fund:</u>	
Financial Statement Report Summary	18
Independent Auditor's Report	19-20
Individual Nonshared Proprietary Fund Financial Statements:	
Statement of Net Assets	21
Statement of Revenues, Expenses and Changes in Fund Net Assets	22
Statement of Cash Flows	23-24
Notes to Financial Statements	25-35

State of Illinois
Department of Employment Security

Financial Statements
For the Year Ended June 30, 2005

Table of Contents (Cont.)

	<u>Page(s)</u>
<u>Individual Nonshared Proprietary Fund – Continued</u>	
Supplementary Information	
Combining Financial Statements	
Statement of Net Assets	36
Statement of Revenues, Expenses and Changes in Net Assets	37
Statement of Cash Flows	38-39
Interfund Balances and Activities	40-42

State of Illinois
Department of Employment Security

Agency Officials
June 30, 2005

Director	Ms. Brenda A. Russell
Deputy Director, Administration (Previous to November 1, 2005)	Ms. Grace Chan McKibben
Deputy Director, Operations	Mr. Don Davis
Chief Financial Officer	Mr. Jon Gingrich
Chief Information Services Officer	Mr. Thomas Revane
Manager, Revenue Division	Ms. Lois Cuevas
Deputy Director, Field Operations	Ms. Marsha Ross-Jackson
General Counsel	Mr. Joseph P. Mueller
Manager, Accounting Services Division	Mr. L. Briant Coombs
Deputy Director, Workforce and Career Information (Economic Information and Analysis)	Mr. Henry L. Jackson
Manager, General Services Division	Mr. John Rogers
Manager, Human Resources Division	Ms. Elizabeth Nicholson
Manager, Unemployment Insurance Division	Ms. Carolyn Vanek
Manager, Employment Services Division Previous to October 16, 2004 Acting, October 16, 2004 to present	Mr. Roderick Nunn Mr. Less Boucher
Deputy Director, Strategic Planning Previous to December 11, 2004 Acting as of April 1, 2005 to present	Ms. Laura Miller Craig Ms. Georgina Heard-LaBonne
Equal Opportunity Officer Previous to December 1, 2004 December 1, 2004 to present	Ms. Hattie Askew Mr. Carlos Charneco

The Department's Administrative offices are located at:

33 South State Street
Chicago, IL 60603-2802
(312) 793-5700

850 East Madison Street
Springfield, IL 62702-5603
(217) 785-5069

STATE OF ILLINOIS
DEPARTMENT OF EMPLOYMENT SECURITY

Individual Nonshared Governmental Funds

Financial Statements

For the Year Ended June 30, 2005

Performed as Special Assistant Auditors
for the Auditor General, State of Illinois

State of Illinois
Department of Employment Security

Financial Statements
For the Year Ended June 30, 2005

FINANCIAL STATEMENT REPORT SUMMARY

The audit of the accompanying individual nonshared governmental fund financial statements of the State of Illinois, Department of Employment Security was performed by McGladrey & Pullen, LLP.

Based on their audits, the auditors expressed unqualified opinions on the Department's individual nonshared governmental fund financial statements.

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the Title III Social Security and Employment Services Fund, Unemployment Compensation Special Administration Fund, Employment Security Administrative Fund and Special Programs Fund (Nonshared Governmental Funds) of the State of Illinois, Department of Employment Security (Department), as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 2, the financial statements present only the Nonshared Governmental Funds and do not purport to, and do not, present fairly the financial position of the State of Illinois, Department of Employment Security as of June 30, 2005, and its changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Also, as discussed in Note 2, the Department implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment to GASB Statement No. 3*, as of July 1, 2004.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Nonshared Governmental Funds of the Department, as of June 30, 2005, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Governmental Auditing Standards*, we have also issued a report dated November 4, 2005 on our consideration of the State of Illinois, Department of Employment Security's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

The Department has not presented a management's discussion and analysis and budgetary comparison information for the Nonshared Governmental Funds that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the financial statements.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the Comptroller, Department management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

Schaumburg, Illinois
November 4, 2005

State of Illinois
 Department of Employment Security

Individual Nonshared Governmental Funds
 Balance Sheets
 June 30, 2005
 (Amounts in \$000's)

	Title III Social Security and Employment Services Fund	Unemployment Compensation Special Administration Fund	Employment Security Administrative Fund	Special Programs Fund
Assets				
Cash and cash equivalents	\$ 20,905	\$ 12,730	\$ 3	\$ -
Intergovernmental receivables	13,484	-	-	1,346
Other receivables	71	31	-	-
Due from other State funds	10,302	3,434	-	-
Inventories	1,695	-	-	-
Total assets	<u>\$ 46,457</u>	<u>\$ 16,195</u>	<u>\$ 3</u>	<u>\$ 1,346</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable and accrued liabilities	\$ 8,464	\$ 294	\$ -	\$ 891
Intergovernmental payables	275	-	-	-
Due to other State funds	7,937	10,359	-	455
Due to component units of the State	39	-	-	-
Deferred revenues	196	-	-	-
Total liabilities	<u>16,911</u>	<u>10,653</u>	<u>-</u>	<u>1,346</u>
Fund Balances:				
Reserved for inventories	1,695	-	-	-
Unreserved - undesignated	27,851	5,542	3	-
Total fund balances	<u>29,546</u>	<u>5,542</u>	<u>3</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 46,457</u>	<u>\$ 16,195</u>	<u>\$ 3</u>	<u>\$ 1,346</u>

See Notes to Financial Statements.

State of Illinois
 Department of Employment Security

Individual Nonshared Governmental Funds
 Statements of Revenue, Expenditures, and Changes in Fund Balances
 Year Ended June 30, 2005
 (Amounts in \$000's)

	Title III Social Security and Employment Services Fund	Unemployment Compensation Special Administration Fund	Employment Security Administrative Fund	Special Programs Fund
Revenues				
Federal government	\$ 178,581	\$ -	\$ -	\$ 36,407
Other revenues	1,055	-	-	-
Licenses and fees	234	-	-	-
Interest and investment income	581	195	-	-
Total revenues	<u>180,451</u>	<u>195</u>	<u>-</u>	<u>36,407</u>
Expenditures				
Employment and economic development	196,040	2,426	-	36,407
Capital outlays	1,013	-	-	-
Total expenditures	<u>197,053</u>	<u>2,426</u>	<u>-</u>	<u>36,407</u>
Deficiency of revenues over (under) expenditures	<u>(16,602)</u>	<u>(2,231)</u>	<u>-</u>	<u>-</u>
Other financing sources (uses)				
Transfers in	14,896	13,373	-	-
Transfers out	-	(12,359)	-	-
Total other financing sources (uses)	<u>14,896</u>	<u>1,014</u>	<u>-</u>	<u>-</u>
Net changes in fund balances	(1,706)	(1,217)	-	-
Fund balances, July 1, 2004	<u>31,252</u>	<u>6,759</u>	<u>3</u>	<u>-</u>
Fund balances, June 30, 2005	<u>\$ 29,546</u>	<u>\$ 5,542</u>	<u>\$ 3</u>	<u>\$ -</u>

See Notes to Financial Statements.

State of Illinois
Department of Employment Security

Individual Nonshared Governmental Funds
Notes to Financial Statements
June 30, 2005
(Amounts in \$000's)

1. Description of Funds

The Department of Employment Security (the Department) administers the nonshared governmental funds described below. A nonshared fund is a fund in which a single State agency is responsible for administering substantially all financial transactions of the fund. The nonshared funds administered by the Department are summarized below.

- (a) **Title III Social Security and Employment Services Fund** - The Department is organized to administer grant and program activities under various federal mandates, statutes and regulations. This fund accounts for all general disbursements for the everyday operation of the Department of Employment Security.
- (b) **Unemployment Compensation Special Administration Fund** - This fund accounts for collections of interest and penalties from employers and judgment interest from claimants. Funds are used as provided by law as necessary for the proper administration of the Unemployment Insurance Act or transferred to the Unemployment Compensation Trust Fund.
- (c) **Employment Security Administrative Fund** - Funds are used as provided by law as necessary for the proper administration of the Unemployment Insurance Act.
- (d) **Special Programs Fund** - This fund accounts for paying unemployment benefits under the Trade Readjustment Act program (TRA), Alternative Trade Adjustment Assistance (ATAA), North American Free Trade Agreement (NAFTA), and Disaster Unemployment Assistance (DUA).

2. Summary of Significant Accounting Policies

The financial statements of the individual nonshared governmental funds administered by the Department have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB). To facilitate the understanding of data included in the financial statements, summarized below are the more significant accounting policies.

(a) Reporting Entity

As defined by GAAP, the financial reporting entity consists of primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable.

State of Illinois
Department of Employment Security

Individual Nonshared Governmental Funds
Notes to Financial Statements
June 30, 2005
(Amounts in \$000's)

2. Summary of Significant Accounting Policies, continued

(a) Reporting Entity - Continued

Financial Accountability is defined as:

- (1) Appointment of a voting majority of the component unit's board and either (a) the primary government's ability to impose its will, or (b) the possibility that the component unit will provide financial benefit to or impose a financial burden on the primary government; or
- (2) Fiscal dependency on the primary government.

Based upon the required criteria, none of the individual nonshared governmental funds have component units, nor is either one a component unit of any other entity. However, because the individual nonshared governmental funds are not legally separate from the State of Illinois, they are included in the financial statements of the State as governmental funds. The State of Illinois' Comprehensive Annual Financial Report may be obtained by writing to the State Comptroller's Office, Financial Reporting Department, 325 West Adams Street, Springfield, Illinois, 62704-1871.

The financial statements present only the Title III Social Security and Employment Services, Unemployment Compensation Special Administration, Employment Security Administrative, and Special Program Funds administered by the State of Illinois, Department of Employment Security and do not purport to, and do not, present fairly the financial position of the State of Illinois, Department of Employment Security as of June 30, 2005, and changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

(b) Basis of Presentation

In government, the basic accounting and reporting entity is a fund. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and/or other resources together with all related liabilities, obligations, reserves, and equities which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. A balance sheet and statement of revenues, expenditures, and changes in fund balance has been presented for each individual nonshared governmental fund administered by the Department.

State of Illinois
Department of Employment Security

Individual Nonshared Governmental Funds
Notes to Financial Statements
June 30, 2005
(Amounts in \$000's)

2. Summary of Significant Accounting Policies, continued

(c) Basis of Accounting

The individual nonshared governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting.

Revenues are recognized as soon as they are both measurable and available. Nonexchange transactions, in which the Department gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants from the federal and other state governments. Revenue from grants, entitlements, and similar items is recognized in the fiscal year in which all eligibility requirements imposed by the provider have been met and the resources are available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State considers revenues to be available if they are collected within 60 days of the end of the current fiscal year.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt obligations, claims and judgments, and compensated absences are recorded only when payment is due. General capital asset acquisitions are reported as expenditures. Proceeds of long-term debt obligations and acquisitions under capital leases are reported as other financing sources.

Significant revenue sources of the individual nonshared governmental funds which are susceptible to accrual include grants from the federal government. All other revenue sources including fees, interest, and investment income are considered to be measurable and available only when cash is received.

(d) Cash and Cash Equivalents

Cash and cash equivalents consist principally of deposits held in the State Treasury. Cash and cash equivalents also include cash on hand; cash in banks for locally held funds, and pooled investments funds held by other governmental agencies with a maturity of three months or less.

(e) Inventories

Inventories, consisting primarily of printed forms and supplies, are valued at cost, principally on the first-in, first-out (FIFO) method. Inventories for each fund are recorded as expenditures when consumed rather than when purchased.

State of Illinois
Department of Employment Security

Individual Nonshared Governmental Funds
Notes to Financial Statements
June 30, 2005
(Amounts in \$000's)

2. Summary of Significant Accounting Policies, continued

(f) Interfund Transactions

The individual governmental nonshared funds have the following types of interfund transactions with other funds of the State:

Services provided and used - sales and purchases of goods and services between funds for a price approximating their external exchange value. Interfund services provided and used are reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as interfund receivables and payables in the fund balance sheets or fund statements of net assets.

Reimbursements - repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursements are reported as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.

Operating transfers - flows of assets (such as cash or goods) without equivalent flows of assets in return and without a requirement for repayment. Transfers are reported as other financing uses in the funds making the transfers and as other financing sources in the funds receiving transfers.

(g) Compensated Absences

A liability for unpaid, accumulated vacation and sick leave balances for the Department employees is reported in the nonshared funds only if they have matured, for example, as a result of employee resignations and retirements. There was no liability for compensated absences as of June 30, 2005.

(h) Fund Balances

The individual nonshared governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for specific purpose. Designations of fund balances represent tentative State plans that are subject to change.

(i) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

(j) Adoption of New Accounting Principle

The Department implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposits and Investment Risk Disclosures, an amendment of GASB Statement No. 3* effective July 1, 2004.

State of Illinois
Department of Employment Security

Individual Nonshared Governmental Funds
Notes to Financial Statements
June 30, 2005
(Amounts in \$000's)

3. Deposits

The State Treasurer is the custodian of the State's cash and cash equivalents for funds maintained in the State Treasury. The Department independently manages cash and cash equivalents maintained outside the State Treasury.

Cash on deposit for locally held funds at June 30, 2005, was as follows:

Fund	Carrying Amount	Bank Balance	Description
Special Programs	\$ -	\$ 100	Insured (FDIC)
Special Programs	-	283	Collateralized
	<u>\$ -</u>	<u>\$ 383</u>	

Collateralized deposits include pooled securities held by the financial institution's trust department. These securities are held in the name of the financial institution and not that of the State.

Deposits in the custody of the State Treasurer (or in transit) and cash on hand at June 30, 2005, were as follows:

Fund	Deposits in Custody of State Treasurer	Cash On Hand
Title III Social Security and Employment Services	\$ 20,900	\$ 5
Unemployment Compensation Special Administration	12,730	-
Employment Security Administrative	3	-
	<u>\$ 33,633</u>	<u>\$ 5</u>

Deposits in the custody of the State Treasurer are pooled and invested with other State funds in accordance with the Deposit of State Moneys Act of Illinois Compiled Statutes (15 ILCS 520/11). Funds held by the State Treasurer have not been categorized as to credit risk because the Department does not own individual securities. Details on the nature of these investments are available within the State of Illinois' Comprehensive Annual Financial Report.

State of Illinois
 Department of Employment Security

Individual Nonshared Governmental Funds
 Notes to Financial Statements
 June 30, 2005
 (Amounts in \$000's)

4. Interfund Balances and Activities

(a) Balances Due to/from Other Funds

The following balances at June 30, 2005 represent amounts due from other Department and State of Illinois funds.

Fund	Amount	Description/Purpose
Title III Social Security and Employment Services	\$ 10,000	Due from Unemployment Compensation Special Administration Fund representing discretionary transfers
	3	Due from Unemployment Compensation Trust Fund representing discretionary transfers of NSF fees
	244	Due from Department of Commerce and Economic Opportunity representing Workforce Investment Act (WIA) transfers
	50	Due from other State Funds for PC version of CIS and countdown
	5	Due from Department of Public Aid for weekly statistical services and monthly intercept of UI benefits
Total	<u>\$ 10,302</u>	
Unemployment Compensation Special Administration	\$ 3,434	Due from Unemployment Compensation Trust Fund representing transfers of penalties and interest
	Total	<u>\$ 3,434</u>

State of Illinois
Department of Employment Security

Individual Nonshared Governmental Funds
Notes to Financial Statements
June 30, 2005
(Amounts in \$000's)

4. Interfund Balances and Activities, continued

(a) Balances Due to/from Other Funds, continued

The following balances at June 30, 2005 represent amounts due to other Department and State of Illinois funds.

Fund	Amount	Description/Purpose
Title III Social Security and Employment Services	\$ 76	Due to Unemployment Compensation Trust Fund for reimbursement of unemployment benefits paid to former employees of the Department
	7,861	Due to other State funds for payment of services
Total	<u>\$ 7,937</u>	
Unemployment Compensation Special Administration	\$ 10,000	Due to Title III Social Security and Employment Services Fund for discretionary transfer
	359	Due to Unemployment Compensation Trust Fund for excess fund balance
Total	<u>\$ 10,359</u>	
Special Programs	\$ 455	Due to Unemployment Compensation Trust Fund for reimbursement of federal withholding taxes for benefits paid
Total	<u>\$ 455</u>	

Due to component units of the State of Illinois of which \$39 represents amounts due to Northern Illinois University relating to a grant contract.

State of Illinois
Department of Employment Security

Individual Nonshared Governmental Funds
Notes to Financial Statements
June 30, 2005
(Amounts in \$000's)

4. Interfund Balances and Activities, continued

(b) Transfers to/from Other Funds

Interfund transfers in for the year ended June 30, 2005, were as follows:

Fund	Amount	Description/Purpose
Title III Social Security and Employment Services	\$ 10,000	Discretionary transfer of penalties and interest from Unemployment Compensation Special Administration Fund
	4,884	Transfer of Reed Act monies from Unemployment Compensation Trust Fund
	12	Discretionary transfer of NSF fees from Unemployment Compensation Trust Fund
Total	<u>\$ 14,896</u>	
Unemployment Compensation Special Administration	\$ 13,373	Discretionary transfer of penalties and interest from Unemployment Compensation Trust Fund
Total	<u>\$ 13,373</u>	

Interfund transfers out for the year ended June 30, 2005, were as follows:

Fund	Amount	Description/Purpose
Unemployment Compensation Special Administration	\$ 10,000	Discretionary transfer of funds to Title III Social Security and Employment Services Fund
	2,359	Transfer of excess funds to Unemployment Compensation Trust Fund
Total	<u>\$ 12,359</u>	

State of Illinois
Department of Employment Security

Individual Nonshared Governmental Funds
Notes to Financial Statements
June 30, 2005
(Amounts in \$000's)

5. Pension Plan

Substantially all of the Department's full-time employees who are not eligible for participation in another state-sponsored retirement plan participate in the State Employees' Retirement System (SERS), which is a pension trust fund in the State of Illinois reporting entity. The SERS is a single-employer defined benefit public employee retirement system (PERS) in which State employees participate, except those covered by the State Universities, Teachers', General Assembly, and Judges' Retirement Systems. The financial position and results of operations of the SERS for fiscal year 2005 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2005. The SERS issues a separate CAFR that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois, 62794-9255.

A summary of SERS benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the SERS' CAFR. Also included is a discussion of employer and employee obligations to contribute and the authority under which those obligations are established.

The Department pays employer retirement contributions in the individual nonshared governmental funds based upon an actuarially determined percentage of their payrolls. For Fiscal year 2005, the employer contribution rate was 16.107%. Effective for pay periods beginning after December 31, 1991, the State opted to pay the employee portion of retirement for most State agencies (including the Department) with employees covered by the State Employees' and Teachers' Retirement Systems. Generally, this "pickup" of employee retirement was part of the fiscal year 2005 budget process. The pickup is subject to sufficient annual appropriations and those employees covered may vary across employee groups and State agencies.

6. Post-employment Benefits

The State provides health, dental and life insurance benefits for certain retirees and their dependents. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health and dental benefits include basic benefits for annuitants under the State's self-insurance plan and insurance contracts currently in force. Life insurance benefits are limited to \$5,000 per annuitant.

Costs incurred for health, dental, and life insurance for annuitants and their dependents were not separated from benefits provided to active employees and their dependents for the year ended June 30, 2005. However, post-employment costs for the State as a whole for all State agencies/departments for dependent health, dental and life insurance for annuitants and their dependents are disclosed in the Illinois Comprehensive Annual Financial Report for the State.

Cost information for retirees by individual fund or State agency is not available. Payments are made on a "pay-as-you-go" basis.

State of Illinois
Department of Employment Security

Individual Nonshared Governmental Funds
Notes to Financial Statements
June 30, 2005
(Amounts in \$000's)

7. Risk Management

The Department is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omission; workers compensation and natural disasters. The State retains the risk of loss (i.e., self insured) for these risks. There has been no reduction in insurance coverage from coverage in the prior year. Settlement amounts have not exceeded coverage for the current or prior two fiscal years. The Department's risk management activities for workers compensation are financed through appropriations to the Illinois Department of Central Management Services and are accounted for in the General Fund of the State. The claims are not considered to be a liability of the Department and accordingly, have not been reported in the Department's financial statements for the year ended June 30, 2005.

8. Commitments and Contingencies

(1) Federal Funding

The Department receives federal grants, which are subject to review and audit by federal grantor agencies. Certain costs could be questioned as not being an eligible expenditure under the terms of the grants. At June 30, 2005, there were no material questioned costs that have not been resolved with the federal awarding agencies. However, questioned costs could still be identified during audits to be conducted in the future. Management of the Department believes there will be no material adjustments to the federal grants and, accordingly, has not recorded a provisions for possible repayment.

(2) Litigation

The Department is routinely involved in a number of legal proceedings and claims that cover a wide range of matters. In the opinion of management, the outcome of these matters is not expected to have any material adverse effect on the financial positions or results of operations of the Department.

9. Functional Consolidations

In accordance with Executive Order 10, issued in 2003, the Facilities Management, Public Information Offices, On-Line Legal Services, Audit, and Information Technology Functions for the Department were transferred to the Department of Central Management Services. During State Fiscal Year 2005, the Department appropriations for these functions were moved from the General Revenue and/or Non-General Revenue Funds to the Central Management Services Revolving Funds. The associated cash was transferred through the use of C-55 Funds Transfers Forms.

10. Subsequent Event

In July 2005, the Unemployment Insurance Act Section 2103.1 was amended by Public Act 94-0232 which eliminated the Administrative Fund (ESAF). The cash balance was transferred to the Unemployment Insurance Trust Fund to close the ESAF.

State of Illinois
Department of Employment Security

Individual Nonshared Governmental Funds
Notes to Financial Statements
June 30, 2005
(Amounts in \$000's)

11. New Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has issued the following statements:

Statement No. 45 – *Accounting and Financial Reporting by Employers for Postemployment Benefits Plans Other Than Pensions*, which establishes standards for the measurement and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and if applicable, required supplementary information (RSI) in the financial reports of state and local government employers. This statement is effective for the period beginning July 1, 2007.

Management has not yet completed its assessment of the impact of this statement on the Department's financial statements.

STATE OF ILLINOIS
DEPARTMENT OF EMPLOYMENT SECURITY

Individual Nonshared Proprietary Fund

Financial Statements

For the Year Ended June 30, 2005

Performed as Special Assistant Auditors
For the Auditor General, State of Illinois

State of Illinois
Department of Employment Security

Financial Statements
For the Year Ended June 30, 2005

FINANCIAL STATEMENT REPORT SUMMARY

The audit of the accompanying individual nonshared proprietary fund financial statements of the State of Illinois, Department of Employment Security was performed by McGladrey & Pullen, LLP.

Based on their audit, the auditors expressed an unqualified opinion on the Department's individual nonshared proprietary fund financial statements.

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the Unemployment Compensation Trust Fund (Individual Nonshared Proprietary Fund) of the State of Illinois, Department of Employment Security (Department), as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 2, the financial statements present only the Unemployment Compensation Trust Fund and do not purport to, and do not, present fairly the financial position of the State of Illinois, Department of Employment Security as of June 30, 2005, and its changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Also as discussed in Note 2, the Department implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3*, as of July 1, 2004.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Unemployment Compensation Trust Fund of the State of Illinois, Department of Employment Security, as of June 30, 2005, and the changes in financial position and cash flows, thereof for the year 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 November 4, 2005 on our consideration of the Department's internal control over financial reporting of the Unemployment Compensation Trust Fund and on our tests of the Department's compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 audit.

The Department has not presented a management's discussion and analysis for the Unemployment Compensation Trust Fund that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the financial statements.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements of the Unemployment Compensation Trust Fund (Individual Nonshared Proprietary Fund) of the State of Illinois, Department of Employment Security. The combining financial statements and interfund balances and activities, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining financial statements and interfund balances and activities have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the Comptroller, Department management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

Schaumburg, Illinois
November 4, 2005

State of Illinois
 Department of Employment Security

Individual Nonshared Proprietary Fund
 Statement of Net Assets
 June 30, 2005
 (Amounts in \$000's)

	Unemployment Compensation Trust Fund
Assets	
Cash and cash equivalents	\$ 208,231
Investments	631,317
Receivables, net:	
Taxes	513,748
Intergovernmental	29,420
Other	74,755
Due from State funds	8,085
Due from component units of the State of Illinois	170
Unamortized bond issuance costs, current	734
	<hr/>
Total current assets	1,466,460
Unamortized bond issuance costs, noncurrent	225
	<hr/>
Total assets	1,466,685
	<hr/>
Liabilities	
Accounts payable	1,244
Benefit payments payable	72,618
Intergovernmental payables	5,010
Due to other State funds	3,437
Bonds payable, current	519,148
	<hr/>
Total current liabilities	601,457
Bonds payable, noncurrent	158,150
	<hr/>
Total liabilities	759,607
	<hr/>
Net Assets	
Restricted for:	
Unemployment compensation benefits	735,178
Unrestricted	(28,100)
	<hr/>
Total net assets	\$ 707,078
	<hr/> <hr/>

See Notes to Financial Statements.

State of Illinois
 Department of Employment Security

Individual Nonshared Proprietary Fund
 Statement of Revenues, Expenses, and Changes in Net Assets
 Year Ended June 30, 2005
 (Amounts in \$000's)

	Unemployment Compensation Trust Fund
Operating revenues:	
Contributions - Unemployment taxes	\$ 2,578,835
Federal government	23,912
Total operating revenues	<u>2,602,747</u>
Operating expenses	
Benefit payments and refunds	<u>1,945,631</u>
Operating income	<u>657,116</u>
Nonoperating revenues (expenses)	
Interest and investment income	15,946
Other revenues	79
Interest and investment expense	(34,413)
Other expenses	(2,512)
Total nonoperating revenues (expenses)	<u>(20,900)</u>
Income before transfers:	636,216
Transfers in	2,359
Transfers out	<u>(18,269)</u>
Increase in net assets	620,306
Net assets, July 1, 2004	<u>86,772</u>
Net assets, June 30, 2005	<u><u>\$ 707,078</u></u>

See Notes to Financial Statements.

State of Illinois
 Department of Employment Security

Individual Nonshared Proprietary Fund
 Statement of Cash Flows
 Year Ended June 30, 2005
 (Amounts in \$000's)

	Unemployment Compensation Trust Fund
Cash flows from operating activities	
Contributions - Unemployment taxes received	\$ 2,473,702
Federal grants received	23,912
Unemployment benefits paid	(1,921,352)
Net cash provided by operating activities	576,262
Cash flows from noncapital financing activities	
Net transfers to other funds	(15,293)
Proceeds from issuance of revenue bonds	726,793
Principal paid on borrowing from Federal government	(585,175)
Principal paid on revenue bonds	(43,900)
Interest paid on revenue bonds and Federal borrowing	(42,235)
Other noncapital financing activities	79
Net cash provided by noncapital financing activities	40,269
Cash flows from investing activities	
Purchase of investment securities	(631,317)
Net proceeds from pooled investments	206,164
Interest and investment income	15,946
Net cash (used in) investing activities	(409,207)
Net increase in cash and cash equivalents	207,324
Cash and cash equivalents, July 1, 2004	907
Cash and cash equivalents, June 30, 2005	\$ 208,231

State of Illinois
Department of Employment Security

Individual Nonshared Proprietary Fund
Statement of Cash Flows - Continued
Year Ended June 30, 2005
(Amounts in \$000's)

	Unemployment Compensation Trust Fund
Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 657,116
Adjustments to reconcile operating income to net cash provided by operating activities:	
Provision for uncollectible accounts	55,430
Changes in assets and liabilities	
Receivables	(171,293)
Intergovernmental receivables	1,897
Due from other funds	5,944
Due from component units	(2)
Restricted assets	4,884
Benefit payments payable	24,279
Intergovernmental payables	(1,993)
Net cash provided by operating activities	\$ 576,262

State of Illinois
Department of Employment Security

Individual Nonshared Proprietary Fund
Notes to Financial Statements
June 30, 2005
(Amounts in \$000's)

1. Description of Funds

The Department of Employment Security (the Department) administers the nonshared proprietary funds as described below. A Nonshared fund is a fund in which a single State agency is responsible for administering substantially all financial transactions of the fund.

The Unemployment Compensation Trust Fund accounts for assets held by the Department in a trustee capacity, for which the principal and income may be expended in the course of the fund's designated operations. The fund, a locally held fund, receives employer contributions and disburses money in the form of unemployment benefits paid to eligible claimants. This fund also receives federal funding to pay eligible claimants for any federally mandated benefit programs. The Unemployment Compensation Trust Fund is not appropriated by the General Assembly and is intended to be self-supporting.

The Master Bond Fund has been combined with the Unemployment Compensation Trust Fund for financial reporting purposes. The Master Bond Fund accounts for Fund Building Receipts which are used for the payment of obligations in connection with bond issues, including principal and interest and bond administrative expenses. The fund, a locally held fund, was established January 1, 2004 by an amendment to the Unemployment Insurance Act by the Authorizing Legislation (Public Act 93-0634, as supplemented by Public Act 93-0676) where employers' contributions attributable to the Fund Building rate shall be directed for deposit into the Master Bond Fund. The Authorizing Legislation authorizes the State to issue bonds to (1) repay principal of and interest on unpaid advances to the State's unemployment trust account within the Federal Unemployment Trust Fund; (2) pay unemployment benefits by depositing a portion of the proceeds in the State's unemployment trust account within the Federal Unemployment Trust Fund; and (3) pay costs of issuance with respect to the Series 2004 Bonds.

2. Summary of Significant Accounting Policies

The financial statements of the individual nonshared proprietary funds have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB). To facilitate the understanding of data included in the financial statements, summarized below are the more significant accounting policies.

(a) Reporting Entity

As defined by GAAP, the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as:

(1) Appointment of a voting majority of the component unit's board and either (a) the primary government's ability to impose its will, or (b) the possibility that the component unit will provide financial benefit to or impose a financial burden on the primary government; or

(2) Fiscal dependency on the primary government.

State of Illinois
Department of Employment Security

Individual Nonshared Proprietary Fund
Notes to Financial Statements
June 30, 2005
(Amounts in \$000's)

2. Summary of Significant Accounting Policies, continued

Based upon the required criteria, none of the individual nonshared proprietary funds have component units, nor is either one a component unit of any other entity. However, because the individual nonshared proprietary funds are not legally separate from the State of Illinois, they are included in the financial statements of the State as proprietary funds. The State of Illinois' Comprehensive Annual Financial Report may be obtained by writing to the State Comptroller's Office, Financial Reporting Department, 325 West Adams Street, Springfield, Illinois, 62704-1871.

The financial statements include only the Unemployment Compensation Trust Fund administered by the State of Illinois, Department of Employment Security and do not purport to, and do not, present fairly the financial position of the State of Illinois, Department of Employment Security as of June 30, 2005, and changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

(b) Basis of Presentation

In government, the basic accounting and reporting entity is a fund. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and/or other resources together with all related liabilities, obligations, reserves, and equities which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. A statement of net assets, statement of revenues, expenses, and changes in net assets, and statement of cash flows have been presented for the nonshared proprietary funds administered by the Department.

Operating revenues, such as collections of unemployment tax contributions, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as investment earnings, result from nonexchange transactions or ancillary activities.

(c) Basis of Accounting

The individual nonshared proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting.

Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. Nonexchange transactions, in which the Department gives (or receives) value without directly receiving (or giving) equal value in exchange, include federal funding for federally mandated benefit programs. On an accrual basis, revenues from employer contributions are recognized in the fiscal year in which the underlying exchange transaction occurs. Revenues from grants, entitlements, and similar items are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been met.

2. Summary of Significant Accounting Policies, continued

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the individual nonshared proprietary funds financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The State also has the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The State has elected not to follow subsequent private-sector guidance for the individual nonshared proprietary funds administered by the Department.

(d) Cash and Cash Equivalents

Cash and cash equivalents consist principally of cash in banks for locally held funds, U.S. government securities, and pooled investment funds held by other governmental agencies with a maturity of three months or less. Cash and cash equivalents of \$203,794 in the Master Bond Fund are restricted for the purposes described in Note 1.

(e) Investments

Investments are reported at fair value. Fair value is based on quoted market prices.

(f) Interfund transactions

The individual nonshared proprietary funds have the following types of interfund transactions with other funds of the State:

Reimbursements - repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursements are reported as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.

Transfers - flows of assets (such as cash or goods) without equivalent flows of assets in return and without a requirement for repayment. Transfers are reported after nonoperating revenues and expenses.

(g) Net Assets

Net assets consist of the following:

Restricted net assets consist of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the criteria of the preceding category.

When both restricted and unrestricted resources are available for use, generally it is the State's policy to use restricted resources first, then unrestricted resources when they are needed.

State of Illinois
Department of Employment Security

Individual Nonshared Proprietary Fund
Notes to Financial Statements
June 30, 2005
(Amounts in \$000's)

2. Summary of Significant Accounting Policies, continued

(h) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(i) Adoption of New Accounting Principle

The Department implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3*, effective July 1, 2004.

3. Deposits and Investments

The State Treasurer is the custodian of the State's cash and cash equivalents for funds maintained in the State Treasury. The Department independently manages cash and cash equivalents maintained outside the State Treasury. The State of Illinois' Comprehensive Annual Financial Report may be obtained by writing to the State Comptroller's Office, Financial Reporting Department, 325 West Adams Street, Springfield, Illinois, 62704-1871.

At June 30, 2005, cash on deposit for the Unemployment Compensation Trust Fund (UTF) for locally held funds has a carrying amount of \$747 and the bank balance was \$747. Of the bank balance, \$100 was insured through the Federal Depository Insurance Corporation (FDIC). The remaining \$647 was collateralized with securities pledged to the Federal Reserve Bank of New York in the name of the Department. Deposits in Illinois Funds and in the custody of the State Treasurer for the UTF totaled \$3,690 and have a carrying amount of \$3,690 at June 30, 2005.

At June 30, 2005, cash on deposit for the Master Bond Fund (MBF) for locally held funds has a carrying amount of \$177,909 and the bank balance was \$177,909. These deposits are invested in the ABN AMRO Government Money Market Fund held by the Bond Trustee in accordance with the Master Indenture of Trust. Deposits in Illinois Funds and in the custody of the State Treasurer for the MBF totaled \$25,885 and have a carrying amount of \$25,885 at June 30, 2005.

Funds deposited in Illinois Funds and held by the State Treasurer are pooled and invested with other State funds in accordance with the Deposit of State Moneys Act of Illinois Compiled Statute (15 ILCS 520/11). These deposits have not been categorized as to credit risk because the Department does not own individual securities. Detail on the nature of these investments is available within the State of Illinois' Comprehensive Annual Financial Report.

Illinois Funds is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in Illinois Funds are valued at Illinois Fund's share price, which is the price the investment could be sold for.

Deposits in the custody of the United States Treasury totaled \$631,317 at June 30, 2005. These deposits are pooled and invested with other States' funds and have not been categorized as to credit risk because the Department does not own individual securities.

State of Illinois
Department of Employment Security

Individual Nonshared Proprietary Fund
Notes to Financial Statements
June 30, 2005
(Amounts in \$000's)

3. Deposits and Investments, continued

The Department is permitted by the Public Funds Investment Act (30 ILCS 235/2) to engage in a wide variety of investment activities. These include investments in notes, certificates of indebtedness, treasury bills or other securities guaranteed by the United States Government; interest-bearing savings accounts, certificates of deposit, interest-bearing time deposits or any other investments that constitute direct obligations of any bank; short-term obligations of certain qualified United States Corporations; short-term discount obligations of the Federal National Mortgage Association; shares or other securities legally issued by certain state or federal savings and loans associations; insured dividend-bearing share accounts and certain other accounts of chartered credit unions; certain mutual funds, the Illinois funds investment pool, and repurchase agreements that meet certain instrument and transactions requirements.

4. Taxes Receivable

Taxes receivable represent unemployment taxes, known as contributions, owed by private and non-governmental employers. The allowance for uncollectible taxes has been based on historical collection experience. Balances as of June 30, 2005, are as follows:

Taxes receivable:

Unemployment taxes	\$ 617,706
Interest and penalties receivable on taxes	<u>27,942</u>
Total taxes receivable	645,648
Less: allowance for uncollectible taxes	<u>(131,900)</u>
Taxes receivable	<u><u>\$ 513,748</u></u>

5. Intergovernmental Receivables

Intergovernmental receivables represent reimbursements due from other State and local governments for unemployment benefits paid to those government's ex-employees by the Trust Fund totaling \$29,420 as of June 30, 2005.

6. Other Receivables

Other receivables represent amounts due from claimants who received benefits, which exceeded the allowable amounts. The allowance for uncollectible accounts has been based on historical collection experience. Balances as of June 30, 2005 are as follows:

Other receivables	\$ 328,123
Less: allowance for uncollectible accounts	<u>(253,368)</u>
Other receivables	<u><u>\$ 74,755</u></u>

State of Illinois
 Department of Employment Security

Individual Nonshared Proprietary Fund
 Notes to Financial Statements
 June 30, 2005
 (Amounts in \$000's)

7. Interfund Balances and Activities

(a) Balances Due to/from Other Funds

The following balances at June 30, 2005 represent amounts due from other Department and State of Illinois funds.

Fund	Amount	Description/Purpose
Unemployment Compensation Trust Fund	\$ 7,078	Due from General Revenue Fund for reimbursement of unemployment benefits paid to employees of other State agencies
	117	Due from Road Fund for reimbursement of unemployment benefits paid to former employees of the Illinois Department of Transportation
	76	Due from Title III Social Security and Employment Service Fund for the reimbursement of unemployment benefits to former employees of the Department
	455	Due from Special Program Funds for reimbursement of federal withholding taxes on benefits paid
	359	Transfer of excess funds from Unemployment Compensation Special Administration Fund
Total	<u>\$ 8,085</u>	

Due from component units of the State of Illinois of which \$170 represents reimbursement of unemployment benefits paid to employees of State universities.

State of Illinois
 Department of Employment Security

Individual Nonshared Proprietary Fund
 Notes to Financial Statements
 June 30, 2005
 (Amounts in \$000's)

7. Interfund Balances and Activities, continued

(a) Balances Due to/from Other Funds, continued

The following balances at June 30, 2005 represent amounts due to other Department and State of Illinois funds.

Fund	Amount	Description/Purpose
Unemployment Compensation Trust Fund	\$ 3	Due to Title III Social Security and Employment Services Fund for discretionary transfers of NSF fees
	3,434	Due to Unemployment Compensation Special Administration Fund for discretionary transfers of penalties and interests
Total	<u>\$ 3,437</u>	

(b) Transfers to/from Other funds

Interfund transfers in for the year ended June 30, 2005, were as follows:

Fund	Amount	Description/Purpose
Unemployment Compensation Trust Fund	<u>\$ 2,359</u>	Transfer of excess funds from Unemployment Compensation Special Administration Fund

State of Illinois
Department of Employment Security

Individual Nonshared Proprietary Fund
Notes to Financial Statements
June 30, 2005
(Amounts in \$000's)

7. Interfund Balances and Activities, continued

(b) Transfers to/from Other funds, continued

Interfund transfers out for the year ended June 30, 2005, were as follows:

Fund	Amount	Description/Purpose
Unemployment Compensation Trust Fund	\$ 13,373	Discretionary transfers of penalties and interests to Unemployment Compensation Special Administration Fund
	4,884	Transfer of Reed Act monies to the Title III Social Security and Employment Services Fund
	12	Discretionary transfers of NSF fees to Title III Social Security and Employment Services Fund
Total	<u>\$ 18,269</u>	

8. Intergovernmental Payables

Intergovernmental payables represent Federal withholding tax liability of \$949 and interstate combined wage claim benefits payable of \$4,061.

9. Bonds Payable

On July 1, 2004, the Unemployment Insurance Fund Building Receipts Revenue Bonds, Series 2004 of \$712 million were issued pursuant to the Master Indenture of Trust, dated as of June 1, 2004, with LaSalle Bank National Association as Trustee. The payment of principal, premiums and interest is secured by a pledge of and lien on the Pledged Revenues, the sole source of which is the Fund Building receipts. These receipts are directed for deposit into the Master Bond Fund. Bond proceeds are not appropriated. The bonds were issued as follows:

Bonds	Interest Rates	Amount (in thousands)
Series 2004A (fixed rate)	5%	\$ 340,000
Series 2004B (auction rate)	2.15% - 2.85%	\$ 372,000

State of Illinois
 Department of Employment Security

Individual Nonshared Proprietary Fund
 Notes to Financial Statements
 June 30, 2005
 (Amounts in \$000's)

9. Bonds Payable, continued

These bonds were issued due to the depletion of the UTF in early March 2003 and the continued borrowing from the Federal Government to pay unemployment benefits. The State, acting by and through the Department is authorized to issue Series 2004 Bonds pursuant to Public Act 93-0634, as supplemented by Public Act 93-0676 (the Authorizing Legislation) for the purpose of (1) reducing the cost of covering shortfalls in the Illinois UTF account below the cost of relying exclusively on Federal advances, and (2) to ensure that employers in Illinois remain eligible for full credit against the FUTA tax.

The interest on these advances through July 1, 2004 totaling \$19 million and the balance of the advances from the federal government was paid on September 27, 2004 and September 30, 2004, respectively, from the proceeds of the bonds issued.

Bond issuance costs and bond premium are amortized over the term of the related debt.

In February 2005 and August 2005, the Department exercised its option to redeem early all of the Series 2004B Bonds (Auction Rate Securities) as follows:

Fiscal Year	Date	Amount
2005	02/01/2005	\$ 43,900
		<u> </u>
2006	08/09/2005	\$ 93,000
	08/16/2005	93,000
	08/23/2005	93,000
	08/30/2005	49,100
		<u>\$ 328,100</u>

Revenue bond debt service requirements to maturity are as follows:

	Principal		Interest		Premium	
	Fixed Rate	Auction Rate	Fixed Rate	Auction Rate	Fixed Rate	Auction Rate
2006	\$ 185,000	\$ 328,100	\$ 12,375	\$ 1,546	\$ 6,048	\$ -
2007	80,000	-	5,750	-	2,441	-
2008	75,000	-	1,875	-	709	-
	<u>\$ 340,000</u>	<u>\$ 328,100</u>	<u>\$ 20,000</u>	<u>\$ 1,546</u>	<u>\$ 9,198</u>	<u>\$ -</u>

State of Illinois
Department of Employment Security

Individual Nonshared Proprietary Fund
Notes to Financial Statements
June 30, 2005
(Amounts in \$000's)

9. Bonds Payable, continued

The following is a summary of the long-term obligation activities of the Department for the year ended June 30, 2005:

Issue	Balances July 1, 2004	Issuances	Retirements	Balances June 30, 2005	Due Within One Year
\$340,000 Series 2004A (Fixed Rate) Bonds are due in scheduled principal installments of \$75,000,000 to \$185,000,000 beginning December 15, 2005 through December 15, 2007; interest at 5.00%	\$ -	\$ 340,000	\$ -	\$ 340,000	\$ 185,000
\$372,000 Series 2004B (Auction Rate Securities) Bonds mature on December 15, 2013 and redeemed in February 2005 and August 2005	-	372,000	43,900	328,100	328,100
Unamortized Bond Premium on Series 2004A (Fixed Rate) Bonds	-	18,264	9,066	9,198	6,048
	\$ -	\$ 730,264	\$ 52,966	\$ 677,298	\$ 519,148

10. Risk Management

The Department is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; workers compensation and natural disasters. The State retains the risk of loss (i.e., self insured) for these risks. There has been no reduction in insurance coverage from coverage in the prior year. Settlement amounts have not exceeded coverage for the current or prior two fiscal years. The Department's risk management activities for workers compensation are financed through appropriations to the Illinois Department of Central Management Services and are accounted for in the General Fund of the State. The claims are not considered to be a liability of the Department and accordingly, have not been reported in the Department's financial statements for the year ended June 30, 2005.

State of Illinois
Department of Employment Security

Individual Nonshared Proprietary Fund
Notes to Financial Statements
June 30, 2005
(Amounts in \$000's)

11. Contingencies

While the Department is involved in various claims and legal actions arising in the ordinary course of business, it is the opinion of management that the ultimate disposition of these matters will not have a material effect on the individual nonshared proprietary funds financial statements.

12. New Accounting Pronouncements

The *Governmental Accounting Standards Board (GASB)* has issued the following statements:

Statement No. 45 - *Accounting and Financial Reporting by Employers for Postemployment Benefits Plans Other Than Pensions*, which establishes standards for the measurement and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and if applicable, required supplementary information (RSI) in the financial reports of state and local government employers. This statement is effective for the period beginning July 1, 2007.

Management has not yet completed their assessment of the impact of these statements on the 2005 financial statements

SUPPLEMENTARY INFORMATION

State of Illinois
Department of Employment Security
Nonshared Proprietary Funds
Combining Statement of Net Assets
June 30, 2005
(Amounts in \$000's)

	Unemployment Compensation Trust Fund	Master Bond Fund	Eliminations	Total
Assets				
Cash and cash equivalents	\$ 4,437	\$ 203,794	\$ -	\$ 208,231
Investments	631,317	-	-	631,317
Receivables, net:				
Taxes	513,748	-	-	513,748
Intergovernmental	29,420	-	-	29,420
Other	74,755	-	-	74,755
Due from State funds	8,085	445,689	(445,689)	8,085
Due from component units of the State of Illinois	170	-	-	170
Unamortized bond issuance costs, current	-	734	-	734
Total current assets	1,261,932	650,217	(445,689)	1,466,460
Unamortized bond issuance costs, noncurrent	-	225	-	225
Total assets	1,261,932	650,442	(445,689)	1,466,685
Liabilities				
Accounts payable	-	1,244	-	1,244
Benefit payments payable	72,618	-	-	72,618
Intergovernmental payables	5,010	-	-	5,010
Due to other State funds	449,126	-	(445,689)	3,437
Bonds payable, current	-	519,148	-	519,148
Total current liabilities	526,754	520,392	(445,689)	601,457
Bonds payable, noncurrent	-	158,150	-	158,150
Total liabilities	526,754	678,542	(445,689)	759,607
Net Assets				
Restricted for:				
Unemployment compensation benefits	735,178	-	-	735,178
Unrestricted	-	(28,100)	-	(28,100)
Total net assets	\$ 735,178	\$ (28,100)	\$ -	\$ 707,078

State of Illinois
Department of Employment Security

Nonshared Proprietary Funds
Combining Statement of Revenues, Expenses, and Changes in Net Assets
Year Ended June 30, 2005
(Amounts in \$000's)

	Unemployment Compensation Trust Fund	Master Bond Fund	Eliminations	Total
Operating revenues:				
Contributions - Unemployment taxes	\$ 2,578,835	\$ -	\$ -	\$ 2,578,835
Federal government	23,912	-	-	23,912
Total operating revenues	<u>2,602,747</u>	<u>-</u>	<u>-</u>	<u>2,602,747</u>
Operating expenses				
Benefit payments and refunds	1,945,631	-	-	1,945,631
Operating income	<u>657,116</u>	<u>-</u>	<u>-</u>	<u>657,116</u>
Nonoperating revenues (expenses)				
Interest and investment income	14,416	1,530	-	15,946
Other revenues	79	-	-	79
Interest and investment expense	-	(34,413)	-	(34,413)
Other expenses	-	(2,512)	-	(2,512)
Total nonoperating revenues (expenses)	<u>14,495</u>	<u>(35,395)</u>	<u>-</u>	<u>(20,900)</u>
Income (loss) before transfers:	671,611	(35,395)	-	636,216
Transfers in	1,114,083	843,103	(1,954,827)	2,359
Transfers out	<u>(859,372)</u>	<u>(1,113,724)</u>	<u>1,954,827</u>	<u>(18,269)</u>
Increase (decrease) in net assets	926,322	(306,016)	-	620,306
Net assets, July 1, 2004	<u>(191,144)</u>	<u>277,916</u>	<u>-</u>	<u>86,772</u>
Net assets, June 30, 2005	<u>\$ 735,178</u>	<u>\$ (28,100)</u>	<u>\$ -</u>	<u>\$ 707,078</u>

State of Illinois
Department of Employment Security

Nonshared Proprietary Funds
Combining Statement of Cash Flows
Year Ended June 30, 2005
(Amounts in \$000's)

	Unemployment Compensation Trust Fund	Master Bond Fund	Eliminations	Total
Cash flows from operating activities				
Contributions - Unemployment taxes received	\$ 2,473,702	\$ -	\$ -	\$ 2,473,702
Federal grants received	23,912	-	-	23,912
Unemployment benefits paid	(1,921,352)	-	-	(1,921,352)
Net cash provided by operating activities	576,262	-	-	576,262
Cash flows from noncapital financing activities				
Net transfers from (to) other funds	629,265	(644,558)	-	(15,293)
Proceeds from issuance of revenue bonds	-	726,793	-	726,793
Principal paid on borrowing from Federal government	(585,175)	-	-	(585,175)
Principal paid on revenue bonds	-	(43,900)	-	(43,900)
Interest paid on revenue bonds and Federal borrowing	-	(42,235)	-	(42,235)
Other noncapital financing activities	79	-	-	79
Net cash provided by (used in) noncapital financing activities	44,169	(3,900)	-	40,269
Cash flows from investing activities				
Purchase of investment securities	(631,317)	-	-	(631,317)
Net proceeds from pooled investments	-	206,164	-	206,164
Interest and investment income	14,416	1,530	-	15,946
Net cash provided by (used in) investing activities	(616,901)	207,694	-	(409,207)
Net increase in cash and cash equivalents	3,530	203,794	-	207,324
Cash and cash equivalents, July 1, 2004	907	-	-	907
Cash and cash equivalents, June 30, 2005	\$ 4,437	\$ 203,794	\$ -	\$ 208,231

State of Illinois
 Department of Employment Security

Nonshared Proprietary Funds
 Combining Statement of Cash Flows - Continued
 Year Ended June 30, 2005
 (Amounts in \$000's)

	Unemployment Compensation Trust Fund	Master Bond Fund	Eliminations	Total
Reconciliation of operating income to net cash provided by operating activities				
Operating income	\$ 657,116	\$ -	\$ -	\$ 657,116
Adjustments to reconcile operating income to net cash provided by operating activities:				
Provision for uncollectible accounts	55,430	-	-	55,430
Changes in assets and liabilities				
Receivables	(171,293)	-	-	(171,293)
Intergovernmental receivables	1,897	-	-	1,897
Due from other funds	5,944	-	-	5,944
Due from component units	(2)	-	-	(2)
Restricted assets	4,884	-	-	4,884
Benefit payments payable	24,279	-	-	24,279
Intergovernmental payables	(1,993)	-	-	(1,993)
Net cash provided by operating activities	\$ 576,262	\$ -	\$ -	\$ 576,262

State of Illinois
 Department of Employment Security

Nonshared Proprietary Funds
 Interfund Balances and Activities
 June 30, 2005
 (Amounts in \$000's)

Interfund Balances and Activities

(a) Balances Due to/from Other Funds

The following balances at June 30, 2005 represent amounts due from other Department and State of Illinois funds.

Fund	Amount	Description/Purpose
Unemployment Compensation Trust Fund	\$ 7,078	Due from General Revenue Fund for reimbursement of unemployment benefits paid to employees of other State agencies
	117	Due from Road Fund for reimbursement of unemployment benefits paid to former employees of the Illinois Department of Transportation
	76	Due from Title III Social Security and Employment Service Fund for the reimbursement of unemployment benefits to former employees of the Department
	455	Due from Special Program Funds for reimbursement of federal withholding taxes on benefits paid
	359	Transfer of excess funds from Unemployment Compensation Special Administration Fund
Total	<u>\$ 8,085</u>	
Master Bond Fund	\$ 445,689	Transfer of Fund Building Receipts from the Unemployment Compensation Trust Fund
Total	<u>\$ 445,689</u>	

State of Illinois
Department of Employment Security

Nonshared Proprietary Funds
Interfund Balances and Activities
June 30, 2005
(Amounts in \$000's)

Interfund Balances and Activities, continued

(a) Balances Due to/from Other Funds, continued

The following balances at June 30, 2005 represent amounts due to other Department and State of Illinois funds.

Fund	Amount	Description/Purpose
Unemployment Compensation Trust Fund	\$ 3	Due to Title III Social Security and Employment Services Fund for discretionary transfers of NSF fees
	3,434	Due to Unemployment Compensation Special Administration Fund for discretionary transfers of penalties and interests
	445,689	Transfer of Fund Building Receipts to Master Bond Fund
Total	<u>\$ 449,126</u>	

(b) Transfers to/from Other Funds

Interfund transfers in for the year ended June 30, 2005 were as follows:

Fund	Amount	Description/Purpose
Unemployment Compensation Trust Fund	\$ 1,113,724	Transfer of excess Fund Building Receipts from the Master Bond Fund
	359	Transfer of excess funds from Unemployment Compensation Special Administration Fund
Total	<u>\$ 1,114,083</u>	
Master Bond Fund	\$ 2,000	Transfer of excess funds from Unemployment Compensation Special Administration Fund
	841,103	Transfer of Fund Building Receipts from the Unemployment Compensation Trust Fund
Total	<u>\$ 843,103</u>	

State of Illinois
 Department of Employment Security

Nonshared Proprietary Funds
 Interfund Balances and Activities
 June 30, 2005
 (Amounts in \$000's)

Interfund Balances and Activities, continued

(b) Transfers to/from Other Funds, continued

Interfund transfers out for the year ended June 30, 2005 were as follows:

Fund	Amount	Description/Purpose
Unemployment Compensation Trust Fund	\$ 841,103	Transfer of excess Fund Building Receipts to the Master Bond Fund
	13,373	Discretionary transfers of penalties and interest to Unemployment Compensation Special Administration Fund
	4,884	Transfer of Reed Act monies to the Title III Social Security and Employment Services Fund
	12	Discretionary transfers of NSF fees to Title III Social Security and Employment Services Fund
Total	<u>\$ 859,372</u>	
Master Bond Fund	\$ 1,113,724	Transfer of excess Fund Building Receipts to Unemployment Compensation Trust Fund
Total	<u>\$ 1,113,724</u>	