

**State of Illinois  
Department of Employment Security**

**Individual Nonshared Governmental Funds  
Nonshared Proprietary Fund  
Financial Statements  
For the Year Ended June 30, 2016**

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



**State of Illinois  
Department of Employment Security  
Financial Audits  
For the Year Ended June 30, 2016**

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**State of Illinois  
Department of Employment Security  
Agency Officials  
June 30, 2016**

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Director	Mr. Jeffrey D. Mays
Chief of Staff	Mr. James McDonough
Deputy Director Service Delivery Bureau	Ms. Trina Taylor
Deputy Director Business Services Bureau	Ms. Dolores Simon
Chief Legal Counsel	Mr. Joseph P. Mueller
Chief Financial Officer	Ms. Linda DeMore
Chief Internal Auditor	Mr. Rex Crossland
Chief Information Officer	Mr. Thomas Revane
Chief Technology Officer	Mr. Venkata Twarakavi
Equal Employment Opportunity Officer	Ms. Anna D'Ascenzo
Manager, Accounting Services Division	Mr. L. Briant Coombs
Manager, Economic Information and Analysis Division	Ms. Evelina Loescher, PhD
Manager, Revenue Division	Ms. Lois Cuevas
Statewide Manager, Field Operations	Ms. Janice Taylor Brown
Statewide Manager, Unemployment Insurance Programs	Mr. Justin Brissette

The Department's Administrative offices are located at:

33 S State St  
Chicago, IL 60603-2802

607 E Adams, 9<sup>th</sup> floor  
Springfield, IL 62701-1606

**STATE OF ILLINOIS  
DEPARTMENT OF EMPLOYMENT SECURITY**

**Individual Nonshared Governmental Funds**

**Financial Statements**

**For the Year Ended June 30, 2016**

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, 2016**

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**FINANCIAL STATEMENT REPORT SUMMARY**

The audit of the accompanying financial statements of the State of Illinois, Department of Employment Security (Department) were performed by RSM US LLP as of and for the year ended June 30, 2016.

Based on their audit, the auditors expressed unmodified opinions on the Department's nonshared governmental funds financial statements.

**EXIT CONFERENCE**

The findings and recommendations appearing in this report were discussed with Agency personnel at an exit conference on December 13, 2016. Attending were:

**Illinois Finance Authority:**

Linda DeMore  
Jim Schreiber  
Rex Crossland  
Tom Revane  
Dolores Simon  
Jeff Mays

Chief Financial Officer  
Audit Liaison  
Chief Internal Audit  
Chief Information Officer  
Deputy Director-Business Services Bureau  
Director

**Office of the Auditor General:**

Jose Roa

OAG Manager

**RSM US LLP:**

Joseph Evans  
Dan Sethness  
Paul Rosario

Partner  
Audit Manager  
Senior Associate

## Independent Auditor's Report

Honorable Frank J. Mautino  
Auditor General  
State of Illinois

### Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the Operating Fund and Special Programs Fund (Individual Nonshared Governmental Funds) of the State of Illinois, Department of Employment Security (Department), as of and for the year ended June 30, 2016, and the related notes to the financial statements as listed in the table of contents.

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

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

### *Auditor's Responsibility*

Our responsibility is to express 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Individual Nonshared Governmental Funds of the Department, as of June 30, 2016, and the respective changes in financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note 2, the financial statements present only the Individual Nonshared Governmental Funds and do not purport to, and do not, present fairly the financial position of the State of Illinois or the Department, as of June 30, 2016, and the changes in its financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### *Required Supplementary Information*

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

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Individual Nonshared Governmental Funds of the State of Illinois, Department of Employment Security's financial statements. The Operating Fund combining balance sheet and combining statement of revenues, expenditures, and changes in fund balances supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements.

The Operating Fund combining balance sheet and combining statement of revenues, expenditures, and changes in fund balances is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Operating Fund combining balance sheet and combining statement of revenues, expenditures, and changes in fund balances is fairly stated, in all material respects, in relation to the financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2016, on our consideration of the Department'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 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 Department's internal control over financial reporting and compliance.

### **Restricted Use of This Auditor's Report**

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.

**SIGNED ORIGINAL ON FILE**

Schaumburg, Illinois  
December 20, 2016

State of Illinois  
 Department of Employment Security

Individual Nonshared Governmental Funds  
 Balance Sheet  
 June 30, 2016  
 (Amounts in \$000's)

	Operating Fund	Special Programs Fund
<b>Assets</b>		
Cash and cash equivalents	\$ 41,633	\$ -
Intergovernmental receivables	12,272	379
Other receivables	12	-
Due from other State funds	4,634	-
Inventories	248	-
<b>Total assets</b>	<b>\$ 58,799</b>	<b>\$ 379</b>
<b>Liabilities</b>		
Liabilities		
Accounts payable and accrued liabilities	\$ 6,418	\$ 376
Intergovernmental payables	4,016	3
Due to other State funds	8,892	-
<b>Total liabilities</b>	<b>19,326</b>	<b>379</b>
<b>Deferred inflow of resources</b>		
Unavailable grant revenue	5,736	3
Fund balances (deficit)		
Nonspendable - inventories	248	-
Restricted	33,489	-
Unassigned	-	(3)
<b>Total fund balances (deficit)</b>	<b>33,737</b>	<b>(3)</b>
<b>Total liabilities, deferred inflow of resources and fund balances (deficit)</b>	<b>\$ 58,799</b>	<b>\$ 379</b>

See Notes to Financial Statements.

State of Illinois  
 Department of Employment Security

Individual Nonshared Governmental Funds  
 Statement of Revenues, Expenditures, and Changes in Fund Balances  
 Year Ended June 30, 2016  
 (Amounts in \$000's)

	Operating Fund	Special Programs Fund
<b>Revenues</b>		
Federal government	\$ 183,699	\$ 7,815
Other revenues	874	-
Licenses and fees	64	-
Interest and investment income	69	-
Total revenues	<u>184,706</u>	<u>7,815</u>
<b>Expenditures</b>		
Employment and economic development	192,938	7,818
Debt service	62	-
Capital outlays	108	-
Total expenditures	<u>193,108</u>	<u>7,818</u>
<b>Deficiency of revenues over expenditures</b>	(8,402)	(3)
<b>Other financing sources (uses)</b>		
Transfers in	14,200	-
Transfers out	(6,746)	-
Net Transfers	<u>7,454</u>	<u>-</u>
<b>Net changes in fund balances</b>	(948)	(3)
<b>Fund balances, July 1, 2015</b>	<u>34,685</u>	<u>-</u>
<b>Fund balances (deficit), June 30, 2016</b>	<u>\$ 33,737</u>	<u>\$ (3)</u>

See Notes to Financial Statements.

**State of Illinois  
Department of Employment Security**

**Individual Nonshared Governmental Funds  
Notes to Financial Statements  
June 30, 2016  
(Amounts in \$000's)**

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**Note 1. Description of Funds**

The State of Illinois, 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. Operating Fund

The following have been combined for external financial reporting purposes as the Operating Fund:

*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.

*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 Title III Social Security and Employment Services Fund.

B. Special Programs Fund

This fund accounts for paying unemployment benefits under the Trade Readjustment Act program (TRA), the Alternative Trade Adjustment Assistance program (ATAA), and the Disaster Unemployment Assistance program (DUA), when applicable. For Fiscal Year 2016 there were no DUA Grants.

**Note 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) for governmental funds, as prescribed by the GASB. To facilitate understanding of the financial statements, significant accounting policies are summarized below.

**State of Illinois  
Department of Employment Security**

**Individual Nonshared Governmental Funds  
Notes to Financial Statements  
June 30, 2016  
(Amounts in \$000's)**

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A. Reporting Entity

As defined by GAAP, the financial reporting entity consists of the 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.

The financial statements present only the Operating Fund and the Special Programs Fund administered by the Department and do not purport to, and do not, present fairly the financial position of the Department or the State of Illinois as of June 30, 2016, nor changes in its financial position for the year then ended in conformity with GAAP.

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, deferred inflows/outflows of resources, 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 have been presented for each individual nonshared governmental fund administered by the Department.

Each of the individual nonshared governmental funds is a special revenue fund. Transactions related to resources obtained from specific revenue sources (other than for expendable trusts) that are legally restricted for specified purposes are accounted for in special revenue funds. Special revenue funds are not shared with other State agencies. The Department administers grant and program activities under various federal mandates, statutes and regulations. The major federally funded administrative activities conducted by the Department are accounted for in the Title III Social Security and Employment Service Fund presented as part of the Operating Fund.

The Unemployment Compensation Special Administration Fund, presented as part of the Operating Fund, accounts for collections of interest and penalties from employers and judgment interest from claimants. The funds are used as provided by law as necessary for the administration of the Unemployment Insurance Act. The Special Programs Fund accounts for paying unemployment benefits under various federal programs.

All special revenue funds are held in the State treasury, except for the Special Programs Fund, which is held locally. The funds are appropriated by the General Assembly, except for the unemployment benefits paid from the Special Programs Fund and certain expenditures of the Unemployment Compensation Special Administration Fund that are excluded from appropriation by the Illinois Unemployment Insurance Act.

**State of Illinois  
Department of Employment Security**

**Individual Nonshared Governmental Funds  
Notes to Financial Statements  
June 30, 2016  
(Amounts in \$000's)**

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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, compensated absences, pension contributions and OPEB contributions 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 that are susceptible to accrual include grants when eligibility requirements are met from the federal government. All other revenue sources including fees, interest, and investment income are considered to be measurable only when cash is received.

Grant revenues earned but not received by the Department within sixty days after June 30, 2016 are reported as deferred inflow of resources.

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 investment funds held by other governmental agencies and debt securities with a maturity of three months or less.

E. Inventories

Inventories, consisting primarily of printed forms and supplies, are valued at the lower of cost, which is the purchase price or market value. Management of the Department estimates that market value approximates cost for these supplies, and, accordingly, has not recorded an impairment to inventory valuation at June 30, 2016. 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, 2016  
(Amounts in \$000's)**

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F. Interfund Transactions

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

a. *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 position.

b. *Reimbursements*

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

c. *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's employees is reported in the nonshared funds only if they have matured, for example, as a result of employee resignations and retirements. The liability for compensated absences would be recorded in the Title III Social Security and Employment Services Fund. There was no liability recorded as of June 30, 2016.

H. Fund Balances

Fund balances are classified in the following categories:

a. *Nonspendable*

Nonspendable fund balance consists of amounts that cannot be spent because they are either (a) not in spendable form or (b) legally required to be maintained intact. The Title III Social Security and Employment Services Fund comprise the Department's nonspendable fund balance as of June 30, 2016.

**State of Illinois  
Department of Employment Security**

**Individual Nonshared Governmental Funds  
Notes to Financial Statements  
June 30, 2016  
(Amounts in \$000's)**

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*b. Restricted*

Restricted fund balance consists of amounts that are restricted to specific purposes, that is, when constraints placed on the use of resources are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation. The Title III Social Security and Employment Services Fund and the Unemployment Compensation Special Administration Fund comprise the Department's restricted fund balance as of June 30, 2016.

*c. Committed*

Committed fund balance consists of amounts constrained by limitation that the Department imposes upon itself through resolutions. The commitment amount will be binding unless removed or amended in the same manner. There are no committed fund balances as of June 30, 2016.

*d. Assigned*

Assigned fund balance consists of net amounts that are constrained by the Department's intent to be used for specific purposes, but are neither restricted nor committed. There are no assigned fund balances as of June 30, 2016.

*e. Unassigned*

Unassigned fund balance consists of amounts that are available and are not designated for specific purposes. The individual nonshared governmental funds would only report unassigned fund balance if it a deficit balance. The Special Programs Fund comprises the unassigned fund balance as of June 30, 2016.

When both restricted and unrestricted resources are available for use, generally it is the Department's policy to use restricted resources first, then unrestricted resources when they are needed. Unrestricted resources that are committed are generally used before assigned resources.

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 at the date of the financial statements, the 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.

**State of Illinois  
Department of Employment Security**

**Individual Nonshared Governmental Funds  
Notes to Financial Statements  
June 30, 2016  
(Amounts in \$000's)**

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J. New Accounting Pronouncements

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

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, will be effective for the Department beginning with its year ended June 30, 2017. The objective of this statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits (OPEB)) included in the general purpose external financial reports of state and local government OPEB plans for making decisions and assessing accountability.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (Employer)*, will be effective for the Department beginning with its year ended June 30, 2018. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits (OPEB)). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.

GASB Statement No. 77, *Tax Abatement Disclosures*, will be effective for the Department beginning with its year ended June 30, 2017. Financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bond analysts and others with information they need to evaluate the financial health of governments, make decisions and assess accountability. This information is intended, among other things, to assist these users of financial statements in assessing (1) whether a government's current-year revenues were sufficient to pay for current-year services (known as interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources come from and how it uses them, and (4) a government's financial position and economic condition and how they have changed over time.

GASB Statement No. 78, *Pensions Provided through Multiple Employer Defined Benefit Pension Plans*, will be effective for the Department beginning with its year ended June 30, 2017. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions.

GASB issued Statement No. 80, *Blending Requirements for Certain Component Units*, will be effective for the Department beginning with its year ended June 30, 2017. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units.

GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, will be effective for the Department beginning with its year ended June 30, 2018. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

GASB issued Statement No. 82, *Pension Issues, an amendment of GASB Statements No. 67, No. 68 and No. 73*, will be effective for the Department beginning with its year ended June 30, 2017. The

**State of Illinois  
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**Individual Nonshared Governmental Funds  
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objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within The Scope of GASB Statement 68*, and amendments to certain provisions of GASB Statements 67 and 68. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

GASB Statement No. 83, *Certain Asset Retirement Obligations*, issued December 2016, will be effective for the [City, District, Authority] beginning with its fiscal year ending June 30, 2019, September 30, 2019 or December 31, 2019 [periods beginning after June 15, 2018]. Under Statement No. 83, a government that has legal obligations to perform future asset retirement activities related to its tangible capital assets is required to recognize a liability and a corresponding deferred outflow of resources. The Statement identifies the circumstances that trigger the recognition of these transactions. The Statement also requires the measurement of an asset retirement obligation to be based on the best estimate of the current value of outlays expected to be incurred while the deferred outflow of resources associated with the asset retirement obligation will be measured at the amount of the corresponding liability upon initial measurement and generally recognized as an expense during the reporting periods that the asset provides service. The Statement requires disclosures including a general description of the asset retirement obligation and associated tangible capital assets; the source of the obligation to retire the assets; the methods and assumptions used to measure the liability; and other relevant information.

Management has not yet determined the impact of these upcoming pronouncements.

**Note 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.

As of June 30, 2016, deposits in the Operating Fund represent cash on hand amounting to \$1 and the Department's portion of deposits held in the custody of the State Treasurer (or in transit) amounting to \$41,632. Since the State Treasurer is the custodian of the deposits, disclosures related to deposit and investments risks are available within the State of Illinois' CAFR.

**Note 4. Intergovernmental Receivables and Payables**

In the Operating Fund, intergovernmental receivables represent reimbursements due from the federal government and other local governments for administrative expenses incurred, totaling \$12,237 and \$35, respectively. In the Special Programs Fund, intergovernmental receivables represent reimbursements due from the federal government for unemployment benefits paid under the TRA and ATAA programs, totaling \$379. In 2016, there were no DUA grants.

In the Operating Fund, intergovernmental payables represent federal payroll tax withholdings due to the federal government totaling \$243 and a liability of \$3,773 due back to the federal government.

**State of Illinois  
Department of Employment Security**

**Individual Nonshared Governmental Funds  
Notes to Financial Statements  
June 30, 2016  
(Amounts in \$000's)**

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**Note 5. Interfund Balances and Activities**

(a) Balances Due to and from Other Funds

The following balances at June 30, 2016 represent amounts due from other Department and State of Illinois funds:

Fund	Amount	Description/Purpose
Operating Fund	\$ 2	Due from the Unemployment Compensation Trust Fund representing discretionary transfers of NSF fees
	5	Due from Department of Healthcare and Family Services for weekly statistical services and monthly intercept of UI benefits
	34	Due from the Department of Commerce and Economic Opportunity for WIA grants
	3,963	Due from the Unemployment Compensation Trust Fund representing transfers of penalties and interest
	630	Due from the Department of Revenue
	<u>\$ 4,634</u>	

The following balances at June 30, 2016 represent amounts due to other Department and State of Illinois funds.

Amount	Description/Purpose
\$ 8,849	Due to other State funds for payment of services provided by the State
43	Due to the Unemployment Compensation Trust Fund for reimbursement of unemployment benefits paid to former employees of the Department
<u>\$ 8,892</u>	

**State of Illinois  
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**Individual Nonshared Governmental Funds  
Notes to Financial Statements  
June 30, 2016  
(Amounts in \$000's)**

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(b) Transfers to and from Other Funds

Interfund transfers in and out for the year ended June 30, 2016, were as follows:

Description/Purpose	Transfers in from Other Funds	Transfers out from Other Funds
Discretionary transfer of NSF fees from Unemployment Compensation Trust Fund	\$ 10	\$ -
Discretionary transfer of penalties and interest from Unemployment Compensation Trust Fund	14,190	-
Transfer from Title III Social Security and Employment Services Fund to the Unemployment Compensation Trust Fund for Penalties and Interest previously transferred	-	6,746
	\$ 14,200	\$ 6,746

**Note 6. 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 2016 are included in the State of Illinois' CAFR for the year ended June 30, 2016. The SERS issues a separate CAFR that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois 62704-9255.

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 payroll expense. For fiscal year 2016, the employer contribution rate was 41.65%. Liabilities related to the SERS pension plan are recorded by the State of Illinois and presented in the State of Illinois' CAFR. The liabilities are not recorded in a governmental fund type.

**State of Illinois  
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**Individual Nonshared Governmental Funds  
Notes to Financial Statements  
June 30, 2016  
(Amounts in \$000's)**

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**Note 7. Post-employment Benefits**

The State provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by the Department of Central Management Services (DCMS). Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State-sponsored pension plans. Health, dental, and vision benefits include basic benefits for annuitants and dependents under the State's self-insurance plan and insurance contracts currently in force. Annuitants may be required to contribute towards health, dental, and vision benefits, in an amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the SERS do not contribute towards health, dental, and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to have no contribution towards health, dental, and vision benefits. Annuitants also receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefit becomes \$5.

The total cost of the State's portion of health, dental, vision, and life insurance benefits of all members, including post-employment health, dental, vision, and life insurance benefits, is recognized as expenditure of the State in the Illinois' CAFR. The State finances the costs on a pay-as-you-go basis. The total costs incurred for health, dental, vision, and life insurance benefits are not separated by department or component unit for annuitants and their dependents, nor active employees and their dependents.

A summary of post-employment 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 financial statements of the DCMS. A copy of the financial statements of the DCMS may be obtained by writing to the Department of Central Management Services, 715 Stratton Building, 401 South Spring Street, Springfield, Illinois 62706-4100.

**Note 8. 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., is self-insured) for these risks. There has been no reduction in self-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 DCMS and are accounted for in the General Fund of the State. The claims are not considered to be expenditures or liabilities of the Department and, accordingly, have not been reported in the Department's financial statements for the year ended June 30, 2016.

**State of Illinois  
Department of Employment Security**

**Individual Nonshared Governmental Funds  
Notes to Financial Statements  
June 30, 2016  
(Amounts in \$000's)**

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**Note 9. Commitments and Contingencies**

(a) 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 eligible expenditures under the terms of the grants. Management of the Department believes no material adjustments to the federal grants will be required and, accordingly, has not recorded any provision for repayment.

(b) 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 position or changes in financial position of the Department.

**SUPPLEMENTARY  
INFORMATION**

State of Illinois  
 Department of Employment Security

Individual Nonshared Governmental Funds  
 Combining Balance Sheet for Operating Funds  
 June 30, 2016  
 (Amounts in \$000's)

	Title III Social Security and Employment Services Fund	Unemployment Compensation Special Administration Fund	Eliminations	Total
<b>Assets</b>				
Cash and cash equivalents	\$ 39,072	\$ 2,561	\$ -	\$ 41,633
Intergovernmental receivables	12,272	-	-	12,272
Other receivables	11	1	-	12
Due from other State funds	2,171	3,963	(1,500)	4,634
Inventories	248	-	-	248
<b>Total assets</b>	<b>\$ 53,774</b>	<b>\$ 6,525</b>	<b>\$ (1,500)</b>	<b>\$ 58,799</b>
<b>Liabilities</b>				
Liabilities				
Accounts payable and accrued liabilities	\$ 6,223	\$ 195	\$ -	\$ 6,418
Intergovernmental payables	4,016	-	-	4,016
Due to other State funds	8,874	1,518	(1,500)	8,892
<b>Total liabilities</b>	<b>19,113</b>	<b>1,713</b>	<b>(1,500)</b>	<b>19,326</b>
Deferred inflow of resources				
Unavailable grant revenue	5,736	-	-	5,736
Fund balances				
Nonspendable - inventories	248	-	-	248
Restricted	28,677	4,812	-	33,489
<b>Total fund balances</b>	<b>28,925</b>	<b>4,812</b>	<b>-</b>	<b>33,737</b>
<b>Total liabilities, deferred inflow of resources and fund balances</b>	<b>\$ 53,774</b>	<b>\$ 6,525</b>	<b>\$ (1,500)</b>	<b>\$ 58,799</b>

State of Illinois  
 Department of Employment Security

Individual Nonshared Governmental Funds  
 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
 for Operating Funds  
 Year Ended June 30, 2016  
 (Amounts in \$000's)

	Title III Social Security and Employment Services Fund	Unemployment Compensation Special Administration Fund	Eliminations	Total
<b>Revenues</b>				
Federal government	\$ 183,699	\$ -	\$ -	\$ 183,699
Other revenues	874	-	-	874
Licenses and fees	64	-	-	64
Interest and investment income	66	3	-	69
Total revenues	<u>184,703</u>	<u>3</u>	<u>-</u>	<u>184,706</u>
<b>Expenditures</b>				
Employment and economic development	191,781	1,157	-	192,938
Debt service	62	-	-	62
Capital outlays	108	-	-	108
Total expenditures	<u>191,951</u>	<u>1,157</u>	<u>-</u>	<u>193,108</u>
<b>Deficiency of revenues over expenditures</b>	<u>(7,248)</u>	<u>(1,154)</u>	<u>-</u>	<u>(8,402)</u>
<b>Other financing sources (uses)</b>				
Transfers in	10,660	15,190	(11,650)	14,200
Transfers out	(7,746)	(10,650)	11,650	(6,746)
Total other financing sources	<u>2,914</u>	<u>4,540</u>	<u>-</u>	<u>7,454</u>
<b>Net changes in fund balances</b>	(4,334)	3,386	-	(948)
<b>Fund balances, July 1, 2015</b>	<u>33,259</u>	<u>1,426</u>	<u>-</u>	<u>34,685</u>
<b>Fund balances, June 30, 2016</b>	<u>\$ 28,925</u>	<u>\$ 4,812</u>	<u>\$ -</u>	<u>\$ 33,737</u>

**Independent Auditor's Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed  
In Accordance with *Government Auditing Standards***

RSM US LLP

Honorable Frank J. Mautino  
Auditor General  
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the 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, the financial statements of the Operating Fund and Special Programs Fund (Individual Nonshared Governmental Funds) of the State of Illinois, Department of Employment Security (Department), as of and for the year ended June 30, 2016, and the related notes to the financial statements for the year ended June 30, 2016, and have issued our report thereon dated December 20, 2016.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Individual Nonshared Governmental Funds of the Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

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

**SIGNED ORIGINAL ON FILE**

Schaumburg, Illinois  
December 20, 2016

**State of Illinois**  
**Department of Employment Security**  
**Individual Nonshared Proprietary Fund**  
**Financial Statements**  
**For the Year Ended June 30, 2016**

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, 2016**

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**FINANCIAL STATEMENT REPORT SUMMARY**

The audit of the accompanying financial statements of the State of Illinois, Department of Employment Security (Department) were performed by RSM US LLP as of and for the year ended June 30, 2016.

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

**SUMMARY OF FINDING**

The auditors identified a matter involving the Department's internal control over financial reporting that they considered to be a significant deficiency. The significant deficiency is described in the accompanying Schedule of Finding on page 48 of this report as item 2016-001 (Inadequate Controls over Reporting).

**EXIT CONFERENCE**

The findings and recommendations appearing in this report were discussed with Agency personnel at an exit conference on December 13, 2016. Attending were:

**Illinois Finance Authority:**

Linda DeMore	Chief Financial Officer
Jim Schreiber	Audit Liaison
Rex Crossland	Chief Internal Audit
Tom Revane	Chief Information Officer
Dolores Simon	Deputy Director-Business Services Bureau
Jeff Mays	Director

**Office of the Auditor General:**

Jose Roa	OAG Manager
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**RSM US LLP:**

Joseph Evans	Partner
Dan Sethness	Audit Manager
Paul Rosario	Senior Associate

**EXIT CONFERENCE**

The responses to the recommendations were provided by Jim Schreiber, Audit Liaison, in an email dated December 12, 2016.

## Independent Auditor's Report

Honorable Frank J. Mautino  
Auditor General  
State of Illinois

### Report on the Financial Statements

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, 2016, and the related notes to the financial statements as listed in the table of contents.

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

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

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Individual Nonshared Proprietary Fund of the Department, as of June 30, 2016, and the changes in financial position and cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note 2, the financial statements present only the Individual Nonshared Proprietary Fund and do not purport to, and do not, present fairly the financial position of the State of Illinois or the Department, as of June 30, 2016, and the changes in its financial position, and where applicable, cash flows, for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

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

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Individual Nonshared Proprietary Fund of the State of Illinois, Department of Employment Security's financial statements. The combining statement of net position (deficit), statement of revenues, expenses, and changes in net position and statement of cash flows are presented for purposes of additional analysis and are not a required part of the financial statements.

The combining statement of net position (deficit), statement of revenues, expenses, and changes in net position (deficit) and statement of cash flows are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statement of net position (deficit), statement of revenues, expenses, and changes in net position (deficit) and statement of cash flows are fairly stated, in all material respects, in relation to the financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2016, on our consideration of the Department'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 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 Department's internal control over financial reporting and compliance.

### **Restricted Use of This Auditor's Report**

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.

**SIGNED ORIGINAL ON FILE**

Schaumburg, Illinois  
December 20, 2016

State of Illinois  
Department of Employment Security

Individual Nonshared Proprietary Fund  
Statement of Net Position  
June 30, 2016  
(Amounts in \$000's)

	<b>Unemployment Compensation Trust Fund</b>
<b>Current assets</b>	
Cash and cash equivalents	\$ 183,429
Deposits held by federal government	1,633,661
Receivables, net	
Taxes	561,840
Intergovernmental	28,025
Other	91,057
Due from State funds	22,523
Due from component units of the State	374
<b>Total current assets</b>	<u>2,520,909</u>
<b>Current liabilities</b>	
Benefit payments payable	138,438
Intergovernmental payables	4,091
Due to other State funds	3,965
Accrued bond interest expense	789
Revenue bonds payable, plus unamortized bond premium of \$10,413	196,048
<b>Total current liabilities</b>	<u>343,331</u>
<b>Noncurrent liabilities</b>	
Revenue bonds payable, plus unamortized bond premium of \$4,363	199,208
<b>Total liabilities</b>	<u>542,539</u>
<b>Net position (deficit)</b>	
Restricted for payment of benefits	2,199,150
Unrestricted	(220,780)
<b>Total net position</b>	<u>\$ 1,978,370</u>

See Notes to Financial Statements.

State of Illinois  
 Department of Employment Security

Individual Nonshared Proprietary Fund  
 Statement of Revenues, Expenses, and Changes in Net Position  
 Year Ended June 30, 2016  
 (Amounts in \$000's)

	<b>Unemployment Compensation Trust Fund</b>
<b>Operating revenues</b>	
Contributions - unemployment taxes	\$ 2,205,036
Federal government	866
Total operating revenues	<u>2,205,902</u>
<b>Operating expenses</b>	
Benefit payments and refunds	1,897,055
Total operating expenses	<u>1,897,055</u>
<b>Operating income</b>	<u>308,847</u>
<b>Nonoperating revenues (expenses)</b>	
Interest and investment income	35,332
Interest expense	(7,206)
Other expense	(10)
Total nonoperating revenues	<u>28,116</u>
<b>Income before transfers</b>	<u>336,963</u>
<b>Other financing sources (uses)</b>	
Transfers in	6,746
Transfers out	(14,200)
Total other financing sources (uses)	<u>(7,454)</u>
<b>Change in net position</b>	329,509
<b>Net position, July 1, 2015</b>	<u>1,648,861</u>
<b>Net position, June 30, 2016</b>	<u>\$ 1,978,370</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, 2016  
(Amounts in \$000's)**

	<b>Unemployment Compensation Trust Fund</b>
<b>Cash flows from operating activities</b>	
Contributions - unemployment taxes received	\$ 2,225,705
Federal grants received	1,177
Unemployment benefits paid	(1,859,750)
Net cash provided by operating activities	<u>367,132</u>
<b>Cash flows from noncapital financing activities</b>	
Principal paid on revenue bonds	(237,785)
Interest paid on revenue bonds	(29,524)
Operating grants recoupment - STC Grant	(4,308)
Miscellaneous expense - FUTA payments	(10)
Transfers in	13,140
Transfers out	(17,950)
Net cash used in noncapital financing activities	<u>(276,437)</u>
<b>Cash flows from investing activity</b>	
Interest and investment income	<u>35,332</u>
Net cash provided by investing activity	<u>35,332</u>
<b>Net increase in cash and cash equivalents</b>	126,027
<b>Cash and cash equivalents, July 1, 2015</b>	<u>1,691,063</u>
<b>Cash and cash equivalents, June 30, 2016</b>	<u>\$ 1,817,090</u>

**State of Illinois  
Department of Employment Security**

**Individual Nonshared Proprietary Fund  
Statement of Cash Flows (Continued)  
Year Ended June 30, 2016  
(Amounts in \$000's)**

	<b>Unemployment Compensation Trust Fund</b>
<hr/>	
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 308,847
Adjustments to reconcile operating income to net cash provided by operating activities:	
Provision for uncollectible accounts	84,810
Changes in assets and liabilities:	
Receivables	3,365
Intergovernmental receivables	(10,258)
Due from State funds	(16,319)
Due from component units	(181)
Accounts payable and accrued liabilities	(3,173)
Intergovernmental payables	41
Net cash provided by operating activities	<u>\$ 367,132</u>

See Notes to Financial Statements.

**State of Illinois  
Department of Employment Security**

**Individual Nonshared Proprietary Fund  
Notes to Financial Statements  
June 30, 2016  
(Amounts in \$000's)**

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**Note 1. Description of Funds**

The State of Illinois, Department of Employment Security (the Department) administers the nonshared proprietary fund 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.

Unemployment Compensation Trust Fund

The following have been combined for external financial reporting purposes as Unemployment Compensation Trust Fund (UCTF):

a. Unemployment Compensation Trust Fund

The Unemployment Compensation Trust Fund (UCTF) 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 UCTF is not appropriated by the General Assembly and is intended to be self-supporting.

b. Master Bond Fund

The Master Bond Fund (MBF) 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. This locally held fund was established July 2012 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 MBF. The authorizing legislation authorizes the State to issue bonds to (1) repay principal 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. The MBF is not appropriated by the General Assembly and is intended to be self-supporting.

**Note 2. Summary of Significant Accounting Policies**

The financial statements of the individual nonshared proprietary fund 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 understanding of the financial statements, significant accounting policies are summarized below.

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.

**State of Illinois  
Department of Employment Security**

**Individual Nonshared Proprietary Fund  
Notes to Financial Statements  
June 30, 2016  
(Amounts in \$000's)**

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The financial statements present only the nonshared proprietary fund administered by the Department and do not purport to, and do not, present fairly the financial position of the Department or the State of Illinois as of June 30, 2016 nor changes in its financial position and cash flows for the year then ended in conformity with GAAP.

**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, deferred inflows/outflows, 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 position, statement of revenues, expenses, and changes in net position, and statement of cash flows have been presented for the nonshared proprietary fund administered by the Department.

The nonshared proprietary fund is an enterprise fund. Enterprise funds are used to report any activity for which a fee is charged to external users for goods and services. Activities are required to be reported as enterprise funds if any one of the following criteria is met when applied in the context of the activity's principal revenue sources: the activity is financed with debt that is secured solely by a pledge of net revenues from fees and charges of the activity; laws and regulations require that the activity's costs of providing service, including capital costs, be recovered with fees and charges, rather than taxes or similar revenues; or the pricing policy of the activity establishes fees and charges designed to recover its costs, including capital costs.

The Department administers the unemployment insurance program under various federal and State statutes and regulations. The Unemployment Trust Fund (UTF) was established under Title IX of the Social Security Act to provide partial protection to workers against the loss of wages when they are out of work due to no fault of their own. To fund this program, the agency receives monies from employers to maintain the fund, which are then used to pay benefits to the unemployed workers who meet the eligibility requirements of the law.

These funds are held by the United States Treasury in an unemployment trust fund and are restricted to the payment of unemployment benefits. Unemployment benefits drawn from the fund are awarded to qualified former employees of covered Illinois employers. Employers are required to contribute to the unemployment trust fund based on employees' wages and their past experience level of causing unemployment. The overall rate used to determine contributions for the Illinois Unemployment Insurance Trust Fund is designed to recover the payment of unemployment benefits plus maintain a reasonable balance to protect the solvency of the fund if unemployment rates rise significantly.

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.

Interest expense arising from loans from the federal government is classified as an operating expense by the Department management. Interest expense on MBF is classified as noncapital financing activity in the Statement of Cash Flows. The Department management classifies expenses based on the purposes of the funds to which they were created.

**State of Illinois  
Department of Employment Security**

**Individual Nonshared Proprietary Fund  
Notes to Financial Statements  
June 30, 2016  
(Amounts in \$000's)**

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C. Basis of Accounting

The nonshared proprietary fund is 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.

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.

E. Interfund Transactions

The nonshared proprietary fund has the following types of interfund transactions with other funds of the State:

a) Reimbursements

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

b) 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.

F. Operating Revenues

The negative Federal Government Revenue balances shown below are a result of the ending of the Emergency Unemployment Programs as of December 31, 2013. The amount has been historically reported as a net revenue amount consisting of, total Federal receipts less the recouped cash receipts from Claimants. Under Federal Guidelines the recouped receipts are reported as an offset of federal revenue receipts.

**State of Illinois  
Department of Employment Security**

**Individual Nonshared Proprietary Fund  
Notes to Financial Statements  
June 30, 2016  
(Amounts in \$000's)**

Program	Revenue
Unemployment Compensation for Federal Employees	\$ 7,498
Unemployment Compensation for Ex-service members	10,203
Temporary Extended Unemployment Compensation	(270)
Emergency Unemployment Compensation 2008 (General Revenue funded)	(10,666)
Emergency Unemployment Compensation 2008 (FUTA Funded)	(573)
Federal Additional Compensation	(670)
Extended Benefits	(996)
Emergency Unemployment Compensation 2008 (Non General Revenue)	(3,660)
Total	\$866

**G. Net Position**

Net position consists of the following:

- a) Restricted consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Net position restricted for payment of unemployment benefits totaled \$2,199,150 as of June 30, 2016.

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.

**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 at the date of the financial statements, the 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. New Accounting Pronouncements**

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

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, will be effective for the Department beginning with its year ended June 30, 2017. The objective of this statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits (OPEB)) included in the general purpose external financial reports of state and local government OPEB plans for making decisions and assessing accountability.

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GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (Employer)*, will be effective for the Department beginning with its year ended June 30, 2018. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits (OPEB)). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.

GASB Statement No. 77, *Tax Abatement Disclosures*, will be effective for the Department beginning with its year ended June 30, 2017. Financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bond analysts and others with information they need to evaluate the financial health of governments, make decisions and assess accountability. This information is intended, among other things, to assist these users of financial statements in assessing (1) whether a government's current-year revenues were sufficient to pay for current-year services (known as interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources come from and how it uses them, and (4) a government's financial position and economic condition and how they have changed over time.

GASB Statement No. 78, *Pensions Provided through Multiple Employer Defined Benefit Pension Plans*, will be effective for the Department beginning with its year ended June 30, 2017. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions.

GASB issued Statement No. 80, *Blending Requirements for Certain Component Units*, will be effective for the Department beginning with its year ended June 30, 2017. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units.

GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, will be effective for the Department beginning with its year ended June 30, 2018. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

GASB issued Statement No. 82, *Pension Issues, an amendment of GASB Statements No. 67, No. 68 and No. 73*, will be effective for the Department beginning with its year ended June 30, 2017. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within The Scope of GASB Statement 68*, and amendments to certain provisions of GASB Statements 67 and 68. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

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GASB Statement No. 83, Certain Asset Retirement Obligations, issued December 2016, will be effective for the [City, District, Authority] beginning with its fiscal year ending June 30, 2019, September 30, 2019 or December 31, 2019 [periods beginning after June 15, 2018]. Under Statement No. 83, a government that has legal obligations to perform future asset retirement activities related to its tangible capital assets is required to recognize a liability and a corresponding deferred outflow of resources. The Statement identifies the circumstances that trigger the recognition of these transactions. The Statement also requires the measurement of an asset retirement obligation to be based on the best estimate of the current value of outlays expected to be incurred while the deferred outflow of resources associated with the asset retirement obligation will be measured at the amount of the corresponding liability upon initial measurement and generally recognized as an expense during the reporting periods that the asset provides service. The Statement requires disclosures including a general description of the asset retirement obligation and associated tangible capital assets; the source of the obligation to retire the assets; the methods and assumptions used to measure the liability; and other relevant information.

Management has not yet determined the impact of these upcoming pronouncements.

**Note 3. Deposits and Investments**

At June 30, 2016, cash and cash equivalents for the UTF for a locally held fund had a carrying amount in the accompanying financial statements of \$54,583 and a bank balance of \$54,750.

Custodial credit risk relating to deposits is the risk that in the event of a bank failure, the Department's deposits may not be returned to it. As of June 30, 2016, the Department's deposits held outside the State Treasury were adequately collateralized and therefore not exposed to custodial credit risk.

Investment in Illinois Funds in the custody of the State Treasurer for the UTF totaled \$1,444 and has a carrying amount of \$1,444 at June 30, 2016. The State Treasurer is the custodian of the State's cash and cash equivalents for funds maintained in the State Treasury. 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 amortized cost. The Department independently manages cash and cash equivalents maintained outside the State Treasury. Since the State Treasurer is the custodian of the investment, disclosures related to deposit and investment risks are available within the State of Illinois' CAFR and may be obtained by writing to the State Comptroller's Office, Financial Reporting Department, 325 West Adams Street, Springfield, Illinois, 62704-1871.

Credit risk exists when there is a possibility that the issuer or other counterparty to an investment may be unable to fulfill its obligations. The Department does not have a formal policy limiting credit risk. See notes below regarding credit risk for the amount held in the Master Bond Fund and with the federal government.

At June 30, 2016, the Master Bond Fund for locally held funds had a carrying amount of \$128,846. That amount is invested in the Goldman Sachs Financial Square Government Fund and held by the Bond Trustee in accordance with the Master Indenture of Trust. This money market fund has a credit rating of AAAM by S&P and Aaa-mf by Moody's. This amount is restricted for the purposes described in Note 1. The fund categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. At June 30, 2016, the \$128,846 in the money market fund was valued using quoted market prices (Level 1 inputs).

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Investments held by the federal government totaled \$1,633,661 as of June 30, 2016, and represents an external investment pool in which the Department's funds are pooled along with other participating State's funds. This pool is valued at amortized cost. It is not rated in regards to credit risk.

Custodial credit risk is the risk that in the event of custodian failure, investment principal may not be returned. At June 30, 2016, investments subject to this risk consisted of money market funds with Goldman Sachs, held by the bond trustee. These amounts are not exposed to custodial credit risk as they are held with the bond trustee in the Department's name.

Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment's value. The Department does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Department does not have any debt securities that would be subject to interest rate risk.

**Note 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 which, per statute, is typically on a 4-year collection cycle.

Balances as of June 30, 2016, are as follows:

Unemployment taxes	\$ 798,170
Interest and penalties receivables on taxes	<u>140,102</u>
Total taxes receivable	938,272
Less allowance for uncollectible taxes	<u>(376,432)</u>
Taxes receivable, net	<u><u>\$ 561,840</u></u>

**Note 5. Intergovernmental Receivables**

Intergovernmental receivables represent reimbursements due from other State and local governments and from the federal government for unemployment benefits paid to those governments' ex-employees. These totaled \$27,721 and \$304, respectively, at June 30, 2016.

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**Note 6. Other Receivables**

Other receivables represent amounts due from claimants who received benefits that exceeded their allowable amounts. The allowance for uncollectible accounts has been based on historical collection experience which, per statute, is typically on a 5-year collection cycle.

Balances as of June 30, 2016 are as follows:

Other receivables	\$ 755,817
Less allowance for uncollectible receivables	<u>(664,760)</u>
Other receivable, net	<u>\$ 91,057</u>

**Note 7. Interfund Balances and Activities**

(a) Balances Due to and from Other Funds

The following balances at June 30, 2016 represent amounts due from other Department and State of Illinois funds.

Description/Purpose	Due From Other Funds	Due to Other Funds
Due from General Revenue Fund for reimbursement of unemployment benefits paid	\$ 18,480	\$ -
Due from Operating Fund for reimbursement of unemployment benefits to former employees of the Department	43	-
Due from the Department of Transportation for reimbursement of unemployment benefits to former employees of the Department	4,000	-
Due to Operating Fund for discretionary transfers of penalties and interests	-	3,963
Due to Operating fund for discretionary transfers of nonsufficient funds (NSF) fees	-	2
Totals	<u>\$ 22,523</u>	<u>\$ 3,965</u>

Due from component units of the State of Illinois balance at June 30, 2016 of \$374 represents reimbursement of unemployment benefits paid to employees of State universities.

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(b) Transfers to Other Funds

Interfund transfers in and out for the year ended June 30, 2016, were as follows:

Description/Purpose	Transfer out to Other Fund	Transfer In from Other Fund
Discretionary transfers of penalties and interests to Operating Fund	\$ 14,190	\$ -
Discretionary transfers of NSF fees to Operating Fund	10	-
Transfer from Operating Fund for reimbursement for Penalties and Interest transferred previously	-	6,746
Totals	\$ 14,200	6,746

**Note 8. Intergovernmental Payables**

Intergovernmental payables of \$4,091 represents interstate combined wage claim benefits payable.

**Note 9. Bonds Payable**

On July 31, 2012, the Unemployment Insurance Fund Building Receipts Revenue Bonds, Series 2012 of \$1,469,940 were issued pursuant to the Master Indenture of Trust, dated as of July 18, 2012 with U.S. Bank 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. The bonds were issued as follows:

Bonds	Amount (in Thousands)
Series 2012A	\$ 652,075
Series 2012B	707,865
Series 2012C	110,000

Series 2012A Bonds - original issues \$652,075, dated July 31, 2012, provides for retirement of principal and payment of interest on June 15 and December 15 at rates of 2% - 5%. Maturity is from June 15, 2013 to December 15, 2016.

Series 2012B Bonds - original issues \$707,865, dated July 31, 2012, provides for retirement of principal and payment of interest on June 15 and December 15 at rates of 4% - 5%. Maturity is from June 15, 2017 to June 15, 2020 with first partial optional redemption on June 15, 2014.

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Series 2012C Bonds - original issue \$110,000, dated July 31, 2012, provides for retirement of principal on June 15, 2021 and payment of interest on June 15 and December 15 at rate of 1.5%. This bond is subject to special mandatory super sinker redemption in accordance with the Trust Indenture with first optional redemption on June 15, 2013. The Department chose the redemption option paying \$110,000.

The bonds were issued due to the depletion of the UTF in July 2009 and continued borrowing from the Federal Government to pay unemployment benefits. The State, acting by and through the Department, is authorized to issue Bonds pursuant to Public Act 93-0634, as supplemented by Public Act 93-0676 (the Authorizing Legislation) for the purposes of repaying principal and interest on unpaid advances to the State's unemployment trust accounts with the federal Unemployment Trust Fund; paying unemployment benefits by depositing a portion of the proceeds in the State's unemployment trust fund; paying a portion of the interest on the series 2012 bonds; and paying costs of issuance.

The following is a summary of the bond transactions of the Department for the year ended June 30, 2016:

Series	Balance as of June 30, 2015	Additions	Retirements	Balance as of June 30, 2016	Amount Due Within One Year
2012A	\$ 229,910	\$ -	\$ (176,690)	\$ 53,220	\$ 53,220
2012B	388,355	-	(61,095)	327,260	132,415
Unamortized premium	36,603	-	(21,827)	14,776	-
<b>Total</b>	<b>\$ 654,868</b>	<b>\$ -</b>	<b>\$ (259,612)</b>	<b>\$ 395,256</b>	<b>\$ 185,635</b>

Accrued bond interest expense as of June 30, 2016 totaled \$789.

The future debt service requirements for revenue bonds as of June 30, 2016, including interest payments are as follows:

Fiscal Period Ending June 30,	Principal	Interest	Total
2017	\$ 185,635	\$ 17,644	\$ 203,279
2018	194,845	8,318	203,163
<b>Total</b>	<b>\$ 380,480</b>	<b>\$ 25,962</b>	<b>\$ 406,442</b>

Bond premium is amortized over the term of the bonds using the straight line method.

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The Department has pledged future fund building receipts from employer tax contributions, net of nominal bond trustee administrative expenses, to repay \$380,480 in Unemployment Insurance Series 2012 Bonds issued in July 2012. Proceeds from the bonds provided (i) repayment of principal and interest on unpaid advances to the State's unemployment trust account within the Federal unemployment trust fund; (ii) payment of unemployment benefits; (iii) payment of a portion of interest on the Series 2012 Bonds; and (iv) payment of cost of issuance. The bonds are payable solely from fund building receipts which are calculated as .55% of taxable employer wages reported through 2020. The total principal and interest remaining to be paid on the bonds is \$406,442. Principal and interest paid for the current year was \$267,309 and total fund building receipts were \$368,879.

**Note 10. Contingencies**

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 fund financial statements.

**SUPPLEMENTARY  
INFORMATION**

State of Illinois  
Department of Employment Security

Individual Nonshared Proprietary Fund  
Combining Statement of Net Position (Deficit)  
June 30, 2016  
(Amounts in \$000's)

	Unemployment Compensation Trust Fund	Master Bond Fund	Eliminations	Total
<b>Current assets</b>				
Cash and cash equivalents	\$ 54,583	\$ 128,846	\$ -	\$ 183,429
Deposits held by federal government	1,633,661	-	-	1,633,661
Receivables, net				
Taxes	561,840	-	-	561,840
Intergovernmental	28,025	-	-	28,025
Other	91,057	-	-	91,057
Due from State funds	22,523	46,419	(46,419)	22,523
Due from component units	374	-	-	374
<b>Total current assets</b>	<b>2,392,063</b>	<b>175,265</b>	<b>(46,419)</b>	<b>2,520,909</b>
<b>Current liabilities</b>				
Benefit payments payable	138,438	-	-	138,438
Intergovernmental payables	4,091	-	-	4,091
Due to other State funds	50,384	-	(46,419)	3,965
Accrued bond interest expense	-	789	-	789
Revenue bonds payable, plus unamortized bond premium of \$10,413	-	196,048	-	196,048
<b>Total current liabilities</b>	<b>192,913</b>	<b>196,837</b>	<b>(46,419)</b>	<b>343,331</b>
<b>Noncurrent liabilities</b>				
Revenue bonds payable, plus unamortized bond premium of \$4,363	-	199,208	-	199,208
<b>Total liabilities</b>	<b>192,913</b>	<b>396,045</b>	<b>(46,419)</b>	<b>542,539</b>
<b>Net position (deficit)</b>				
Restricted for payment of benefits	2,199,150	-	-	2,199,150
Unrestricted	-	(220,780)	-	(220,780)
<b>Total net position (deficit)</b>	<b>\$ 2,199,150</b>	<b>\$ (220,780)</b>	<b>\$ -</b>	<b>\$ 1,978,370</b>

State of Illinois  
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Individual Nonshared Proprietary Fund  
Combining Statement of Revenues, Expenses, and Changes in Net Position  
Year Ended June 30, 2016  
(Amounts in \$000's)

	Unemployment Compensation Trust Fund	Master Bond Fund	Eliminations	Total
<b>Operating revenues</b>				
Contributions - unemployment taxes	\$ 2,205,036	\$ -	\$ -	\$ 2,205,036
Federal government	866	-	-	866
Total operating revenues	2,205,902	-	-	2,205,902
<b>Operating expenses</b>				
Benefit payments and refunds	1,897,055	-	-	1,897,055
<b>Operating income</b>	308,847	-	-	308,847
<b>Nonoperating revenues (expenses)</b>				
Interest and investment income	35,155	177	-	35,332
Interest expense	-	(7,206)	-	(7,206)
Other expense	(10)	-	-	(10)
Total nonoperating revenues	35,145	(7,029)	-	28,116
<b>Income before transfers</b>	343,992	(7,029)	-	336,963
<b>Other financing sources (uses)</b>				
Transfers in	6,746	362,485	(362,485)	6,746
Transfers out	(376,685)	-	362,485	(14,200)
Total other financing sources (uses)	(369,939)	362,485	-	(7,454)
<b>Net income</b>	(25,947)	355,456	-	329,509
<b>Net position (deficit), July 1, 2015</b>	2,225,097	(576,236)	-	1,648,861
<b>Net position (deficit), June 30, 2016</b>	\$ 2,199,150	\$ (220,780)	\$ -	\$ 1,978,370

State of Illinois  
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Individual Nonshared Proprietary Fund  
Combining Statement of Cash Flows  
Year Ended June 30, 2016  
(Amounts in \$000's)

	Unemployment Compensation Trust Fund	Master Bond Fund	Eliminations	Total
<b>Cash flows from operating activities</b>				
Contributions - unemployment taxes received	\$ 2,225,705	\$ -	\$ -	\$ 2,225,705
Federal grants received	1,177	-	-	1,177
Unemployment benefits paid	(1,859,750)	-	-	(1,859,750)
Net cash provided by operating activities	367,132	-	-	367,132
<b>Cash flows from noncapital financing activities</b>				
Principal paid on revenue bonds	-	(237,785)	-	(237,785)
Interest paid on revenue bonds	-	(29,524)	-	(29,524)
Operating Grants received - STC Grant	(4,308)	-	-	(4,308)
Miscellaneous receipts - FUTA credit	(10)	-	-	(10)
Transfers in	6,746	368,879	(362,485)	13,140
Transfers out	(380,435)	-	362,485	(17,950)
Net cash provided by (used in) noncapital financing activities	(378,007)	101,570	-	(276,437)
<b>Cash flows from investing activity</b>				
Interest and investment income	35,155	177	-	35,332
Net cash provided by investing activity	35,155	177	-	35,332
<b>Net increase in cash and cash equivalents</b>	24,280	101,747	-	126,027
<b>Cash and cash equivalents, July 1, 2015</b>	1,663,964	27,099	-	1,691,063
<b>Cash and cash equivalents, June 30, 2016</b>	\$ 1,688,244	\$ 128,846	\$ -	\$ 1,817,090

State of Illinois  
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Individual Nonshared Proprietary Fund  
 Combining Statement of Cash Flows (Continued)  
 Year Ended June 30, 2016  
 (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	\$ 308,847	\$ -	\$ -	\$ 308,847
Adjustments to reconcile operating income to net cash provided by operating activities:				
Provision for uncollectible accounts	84,810	-	-	84,810
Changes in assets and liabilities:				
Receivables	3,365	-	-	3,365
Intergovernmental receivables	(10,258)	-	-	(10,258)
Due from State funds	(16,319)	-	-	(16,319)
Due from component units	(181)	-	-	(181)
Accounts payable and accrued liabilities	(3,173)	-	-	(3,173)
Intergovernmental payables	41	-	-	41
Net cash provided by operating activities	<u>\$ 367,132</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 367,132</u>

**Independent Auditor's Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed  
In Accordance with *Government Auditing Standards***

Honorable Frank J. Mautino  
Auditor General  
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the 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, the 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, 2016, and the related notes to the financial statements for the year ended June 30, 2016, and have issued our report thereon dated December 20, 2016.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of finding and response as item 2016-001 that we consider to be a significant deficiency.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Individual Nonshared Proprietary Fund of the Department's financial statements is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Department's Response to Finding**

The Department's response to the finding identified in our audit is described in the accompanying schedule of finding and response. The Department's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

### **Purpose of this Report**

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

**SIGNED ORIGINAL ON FILE**

Schaumburg, Illinois  
December 20, 2016

**State of Illinois  
Department of Employment Security**

**Schedule of Finding and Response  
For the Year Ended June 30, 2016**

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**Current Finding - Government Auditing Standards**

**2016-001 Inadequate Controls over Reporting**

The Department of Employment Security (Department) did not have adequate controls over financial reporting to ensure that the requirements of GASB Statement No. 72, *Fair Value Measurement and Application*, were implemented in fiscal year 2016.

During our audit, we were provided draft financial statements that did not reflect the reporting requirements of GASB Statement No. 72, *Fair Value Measurement and Application*. These requirements were applicable for the \$128,846,000 money market fund investment. The financial statements were subsequently updated to incorporate all the requirements of the new standard.

Paragraph 81 of GASB Statement No. 72, *Fair Value Measurement and Application*, states that a government should disclose the following information for each type of asset or liability measured at fair value: The fair value measurement at the end of the reporting period, the level of the fair value hierarchy within which the fair value measurements are categorized, and a description of the techniques used in the fair value measurement.

According to IDES management, the cause of the deficiency occurred because GASB Statement No. 72 is a new pronouncement and preparers of the financial statements were not fully aware of the requirements.

Inadequate internal controls over financial reporting prevent the Department from preparing financial statements in accordance with GAAP and could result in inaccurate, incomplete and untimely preparation of the financial statements. Also, management or employees in the normal course of performing their assigned functions may not be able to prevent or detect financial statement misstatements in a timely manner. (Finding Code No 2016-001)

**Recommendation**

We recommend the Department improve controls over financial reporting to ensure that all new applicable GASB pronouncements are properly implemented when required.

**Department Response**

The Department agrees with the recommendation. Annually and prior to the preparation of its financial statements, the Department will search current government accounting publications, including GASB pronouncements, for reporting requirements and seek guidance from authorized sources for their correct application.

**State of Illinois  
Department of Employment Security**

**Schedule of Prior Year Finding  
For the Year Ended June 30, 2016**

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**Prior Finding Not Repeated**

**A. Inadequate Controls over Tax Rate Information Used to Calculate Employer Contributions**

During the prior audit, the Illinois Department of Employment Security (Department) erroneously overcharged tax contributions for new employers in 2013 through 2015.

During the current audit, our sample testing did not disclose any instances where the Department overcharged for contributions for new employers for 2015 and 2016. (Finding Code No. 2015-001)