

**State of Illinois
Department of Employment Security**

**Individual Nonshared Governmental Funds
Nonshared Proprietary Fund
Financial Statements
For the Year Ended June 30, 2014**

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, 2014**

Table of Contents	Page
Agency Officials	1
<u>Individual Nonshared Governmental Funds:</u>	
Financial Statement Report Summary	2
Independent Auditor's Report	3
Individual Nonshared Governmental Funds Financial Statements:	
Balance Sheet	6
Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit)	7
Notes to Financial Statements	8
Supplementary Information:	
Operating Fund Combining Balance Sheet	18
Operating Fund Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit)	19
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 <i>Government Auditing Standards</i>	20
Schedule of Finding	22
<u>Individual Nonshared Proprietary Funds:</u>	
Financial Statement Report Summary	24
Independent Auditor's Report	25
Individual Nonshared Proprietary Funds Financial Statements:	
Statement of Net Position	28
Statement of Revenues, Expenses, and Changes in Net Position	29
Statement of Cash Flows	30
Notes to Financial Statements	32
Supplementary Information:	
Combining Statement of Net Position (Deficit)	42
Combining Statement of Revenues, Expenses, and Changes in Net Position	43
Combining Statement of Cash Flows	44
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 <i>Government Auditing Standards</i>	46
Schedule of Finding	48

**State of Illinois
Department of Employment Security
Agency Officials
June 30, 2014**

Director
Executive Deputy Director, Administration
Executive Deputy Director, Service Delivery
Deputy Director, Business Services
Assistant Deputy Director, Business Services
Chief Information Officer
Assistant Deputy Director, Field Operations
Chief Financial Officer
Chief Internal Auditor
Chief Technology Officer
Equal Employment Opportunity Officer, Acting,
General Counsel
Manager, Accounting Services Division
Manager, Economic Information and Analysis Division
Manager, Revenue Division
Manager, Field Operations
Manager, Unemployment Insurance Programs

Mr. Jay Rowell
Ms. Barbara Piwowarski
Mr. Amit Singla
Mr. Gideon Blustein
Ms. Bethani Whiting
Ms. Monica Carranza
Mr. Julian Federle
Ms. Linda DeMore
Mr. Marcus A. Dodd
Mr. Thomas Revane
Ms. Caroline Alamillo
Mr. Joseph P. Mueller
Mr. L. Briant Coombs
Ms. Evelina Loescher, PhD
Ms. Lois Cuevas
Ms. Christine Cornell
Ms. Trina Taylore

The Department's Administrative offices are located at:

33 S State St
Chicago, IL 60603-2802

607 E Adams, 9th floor
Springfield, IL 62701-1606

**STATE OF ILLINOIS
DEPARTMENT OF EMPLOYMENT SECURITY**

Individual Nonshared Governmental Funds

Financial Statements

For the Year Ended June 30, 2014

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, 2014**

FINANCIAL STATEMENT REPORT SUMMARY

The audit of the accompanying financial statements of the State of Illinois, Department of Employment Security (Department) were performed by McGladrey LLP as of and for the year ended June 30, 2014.

Based on their audit, the auditors expressed unmodified opinions on the Department's nonshared governmental funds 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 pages 22-23 of this report as item 2014-001 (Inadequate Controls over Financial Close and Reporting).

EXIT CONFERENCE

In correspondence received from Linda DeMore, Chief Financial Officer, on December 31, 2014, the Department elected to waive a formal exit conference. The response to the recommendation was provided by Linda Demore, Chief Financial Officer, in a letter dated December 30, 2014.



Independent Auditor's Report

Honorable William G. Holland
Auditor General
State of Illinois
Illinois Department of Employment Security

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, 2014, 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 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 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, 2014, 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, 2014, 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 (deficit) 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 (deficit) 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 (deficit) 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 January 20, 2015 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.

McGladrey LLP

Schaumburg, Illinois
January 20, 2015

State of Illinois
Department of Employment Security

Individual Nonshared Governmental Funds

Balance Sheet

June 30, 2014

(Amounts in \$000's)

	Operating Fund	Special Programs Fund
Assets		
Cash and cash equivalents	\$ 15,345	\$ -
Intergovernmental receivables	12,135	293
Other receivables	75	-
Due from other State funds	2,322	-
Inventories	294	-
Total assets	\$ 30,171	\$ 293
Liabilities		
Liabilities		
Accounts payable and accrued liabilities	\$ 5,504	\$ 292
Intergovernmental payables	264	1
Due to other State funds	9,735	-
Due to component units	7	-
Total liabilities	15,510	293
Deferred inflow of resources		
Unavailable grant revenue	1,407	-
Fund balances		
Nonspendable - inventories	294	-
Restricted	12,960	-
Total fund balances	13,254	-
Total liabilities, deferred inflow of resources and fund balances	\$ 30,171	\$ 293

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 (Deficit)
Year Ended June 30, 2014
(Amounts in \$000's)

	Operating Fund	Special Programs Fund
Revenues		
Federal government	\$ 193,127	\$ 6,661
Other revenues	3,876	-
Licenses and fees	26	-
Interest and investment income	3	-
Total revenues	<u>197,032</u>	<u>6,661</u>
Expenditures		
Employment and economic development	201,714	6,661
Debt service	19	-
Capital outlays	44	-
Total expenditures	<u>201,777</u>	<u>6,661</u>
Deficiency of revenues over expenditures	(4,745)	-
Other financing sources		
Transfers in from the Unemployment Compensation Trust Fund	31,737	-
Net changes in fund balances	26,992	-
Fund balances (deficit), July 1, 2013	<u>(13,738)</u>	-
Fund balances, June 30, 2014	<u>\$ 13,254</u>	<u>\$ -</u>

See Notes to Financial Statements.

**State of Illinois
Department of Employment Security**

**Individual Nonshared Governmental Funds
Notes to Financial Statements
June 30, 2014
(Amounts in \$000's)**

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.

The Governmental Accounting Standard Board (GASB) has issued Statement No. 54, *Fund Balance Reporting and Governmental Type Definitions*. This Statement indicates that a fund that has a significant amount in revenue from transfers in should not be reported as its own special revenue fund. As Unemployment Compensation Special Administration Fund does not have a "specific revenue source," it was not shown as an independent special revenue 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).

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, 2014
(Amounts in \$000's)**

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, 2014, 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, 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 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, 2014
(Amounts in \$000's)**

C. Basis of Accounting

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

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

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

Significant revenue sources of the individual nonshared governmental funds 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 and available only when cash is received.

Grant revenues earned but not received by the Department within sixty days after June 30, 2014 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 investments funds held by other governmental agencies with a maturity of three months or less.

E. Inventories

Inventories, consisting primarily of printed forms and supplies, are valued at the lower of cost 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, 2014. 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, 2014
(Amounts in \$000's)

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 as of June 30, 2014 is recorded in the Title III Social Security and Employment Services Fund.

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, 2014.

**State of Illinois
Department of Employment Security**

**Individual Nonshared Governmental Funds
Notes to Financial Statements
June 30, 2014
(Amounts in \$000's)**

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 Unemployment Compensation Special Administration Fund comprise the Department's restricted fund balance as of June 30, 2014.

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, 2014.

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, 2014.

e. Unassigned

Unassigned fund balance consists of amounts that are available and are not designated for specific purposes. There are no unassigned fund balances as of June 30, 2014.

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, and assigned resources are generally used before unassigned 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, 2014
(Amounts in \$000's)**

J. New Accounting Pronouncements

Effective July 1, 2013, the Department adopted the following accounting pronouncements:

- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term “deferred” in financial statement presentations. The Department implemented this Statement for the year ending June 30, 2014, which required them to record unavailable grant revenue as deferred inflows of resources.

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, 2014, deposits in the Operating Fund represent cash on hand amounting to \$2 and deposits in the custody of the State Treasurer (or in transit) amounting to \$15,343.

Deposits in the custody of the State Treasurer are pooled and invested with other State funds in accordance with the Deposit of State Moneys Act of Illinois Compiled Statutes (15 ILCS 520/11). Funds held by the State Treasurer have not been categorized as to credit risk because the Department does not own individual securities and the Department is not responsible for the disclosures for those investments. Details on the nature of these investments 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 \$12,087 and \$48, respectively. In the Special Programs Fund, intergovernmental receivables represent reimbursements due from the federal government for unemployment benefits paid under the TRA, ATAA, and DUA programs, totaling \$293.

In the Operating Fund, intergovernmental payables represent federal payroll tax withholdings due to the federal government totaling \$264.

**State of Illinois
Department of Employment Security**

**Individual Nonshared Governmental Funds
Notes to Financial Statements
June 30, 2014
(Amounts in \$000's)**

Note 5. Interfund Balances and Activities

(a) Balances Due to and from Other Funds

The following balances at June 30, 2014 represent amounts due from other Department and State of Illinois funds.

Fund	Amount	Description/Purpose
Operating Fund	\$ 3	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
	101	Due from the Department of Commerce and Economic Opportunity for WIA grants
	2,185	Due from the Unemployment Compensation Trust Fund representing transfers of penalties and interest
	28	Due from the Department of Labor for staff reimbursement
	\$ 2,322	

State of Illinois
Department of Employment Security

Individual Nonshared Governmental Funds
Notes to Financial Statements
June 30, 2014
(Amounts in \$000's)

The following balances at June 30, 2014 represent amounts due to other Department and State of Illinois funds.

Fund	Amount	Description/Purpose
Operating Fund	\$ 9,683	Due to other State funds for payment of service
	52	Due to the Unemployment Compensation Trust Fund for reimbursement of unemployment benefits paid to former employees of the Department
	<u>\$ 9,735</u>	

(b) Transfers to and from Other Funds

Interfund transfers in for the year ended June 30, 2014, were as follows:

Fund	Amount	Description/Purpose
Operating Fund	\$ 12	Discretionary transfer of NSF fees from Unemployment Compensation Trust Fund
	31,725	Discretionary transfer of penalties and interest from Unemployment Compensation Trust Fund
	<u>\$ 31,737</u>	

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 2014 are included in the State of Illinois' CAFR for the year ended June 30, 2014. 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.

**State of Illinois
Department of Employment Security**

**Individual Nonshared Governmental Funds
Notes to Financial Statements
June 30, 2014
(Amounts in \$000's)**

The Department pays employer retirement contributions in the individual nonshared governmental funds based upon an actuarially determined percentage of payroll expense. For fiscal year 2014, the employer contribution rate was 40.31%. Liabilities related to the SERS pension plan are recorded by the State of Illinois; however, these amounts are not separated by department fund or component unit.

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.

Public Act 97-0695, effective July 1, 2012, alters the contributions to be paid by the State, annuitants, survivors, and retired employees under the Act. Public Act 97-0695 requires the Director of the Department of Central Management Services to, on an annual basis, determine the amount that the State should contribute. The remainder of the cost of coverage shall be the responsibility of the annuitant, survivor, or retired employee. The costs were assessed beginning July 1, 2013. On August 28, 2014, the Sangamon County Circuit Court directed the State Employees' Retirement System to discontinue withholding, as soon as possible, the retiree and survivor health insurance premiums that were in effect since July 2013. The refunding of premiums paid since July 2013 is unresolved pending court decision.

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.

**State of Illinois
Department of Employment Security**

**Individual Nonshared Governmental Funds
Notes to Financial Statements
June 30, 2014
(Amounts in \$000's)**

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, 2014.

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 results of operations of the Department.

(c) Due to Illinois Department of Central Management

In fiscal year 2013, the Department had a liability in the amount of \$26,500 classified as Due to Other State Funds owed to DCMS for services provided to the Department in prior years. The Department paid the entire outstanding amount, in a definitive effort to reduce cost and pay all outstanding liability. For fiscal year 2014, the Department is current.

SUPPLEMENTARY

State of Illinois
Department of Employment Security

Individual Nonshared Governmental Funds
Combining Balance Sheet for Operating Funds
June 30, 2014
(Amounts in \$000's)

	Title III Social Security and Employment Services Fund	Unemployment Compensation Special Administration Fund	Eliminations	Total
Assets				
Cash and cash equivalents	\$ 10,830	\$ 4,515	\$ -	\$ 15,345
Intergovernmental receivables	12,135	-	-	12,135
Other receivables	75	-	-	75
Due from other State funds	137	2,185	-	2,322
Inventories	294	-	-	294
Total assets	\$ 23,471	\$ 6,700	\$ -	\$ 30,171
Liabilities				
Liabilities				
Accounts payable and accrued liabilities	\$ 5,353	\$ 151	\$ -	\$ 5,504
Intergovernmental payables	264	-	-	264
Due to other State funds	9,735	-	-	9,735
Due to component units	7	-	-	7
Total liabilities	15,359	151	-	15,510
Deferred inflow of resources				
Grant revenue	1,407	-	-	1,407
Fund balances				
Nonspendable - inventories	294	-	-	294
Restricted	6,411	6,549	-	12,960
Total fund balances	6,705	6,549	-	13,254
Total liabilities, deferred inflow of resources and fund balances	\$ 23,471	\$ 6,700	\$ -	\$ 30,171

State of Illinois
Department of Employment Security

Individual Nonshared Governmental Funds
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
for Operating Funds (Deficit)
Year Ended June 30, 2014
(Amounts in \$000's)

	Title III Social Security and Employment Services Fund	Unemployment Compensation Special Administration Fund	Eliminations	Total
Revenues				
Federal government	\$ 193,127	\$ -	\$ -	\$ 193,127
Other revenues	3,876	-	-	3,876
Licenses and fees	26	-	-	26
Interest and investment income	2	1	-	3
Total revenues	<u>197,031</u>	<u>1</u>	<u>-</u>	<u>197,032</u>
Expenditures				
Employment and economic development	200,446	1,268	-	201,714
Debt service	19	-	-	19
Capital outlays	44	-	-	44
Total expenditures	<u>200,509</u>	<u>1,268</u>	<u>-</u>	<u>201,777</u>
Excess (deficiency) of revenues over expenditures	<u>(3,478)</u>	<u>(1,267)</u>	<u>-</u>	<u>(4,745)</u>
Other financing sources (uses)				
Transfers in	36,762	31,725	(36,750)	31,737
Transfers out	-	(36,750)	36,750	-
Total other financing sources	<u>36,762</u>	<u>(5,025)</u>	<u>-</u>	<u>31,737</u>
Net changes in fund balances (deficit)	33,284	(6,292)	-	26,992
Fund balances (deficit), July 1, 2013	<u>(26,579)</u>	<u>12,841</u>	<u>-</u>	<u>(13,738)</u>
Fund balances, June 30, 2014	<u>\$ 6,705</u>	<u>\$ 6,549</u>	<u>\$ -</u>	<u>\$ 13,254</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 William G. Holland
Auditor General
State of Illinois
Illinois Department of Employment Security

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, 2014, and the related notes to the financial statements for the year ended June 30, 2014, and have issued our report thereon dated January 20, 2015.

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. We did identify a certain deficiency in internal control, described in the accompanying schedule of finding as item 2014-001 that we consider to be a significant deficiency.

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*.

Department's Response to Finding

The Department's response to the finding identified in our audit is described in the accompanying schedule of finding. 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.

McGladrey LLP

Schaumburg, Illinois
January 20, 2015

**State of Illinois
Department of Employment Security
Schedule of Finding
For the Year Ended June 30, 2014**

Current Finding - Government Auditing Standards

2014-001 Inadequate Controls Over Financial Close and Reporting

The Department of Employment Security (Department) did not have adequate controls over financial close and reporting to allow management or employees in the normal course of performing their assigned functions to prevent or detect financial statement misstatements in a timely manner.

During our audit, we noted the following errors that required audit adjustments to the financial statements:

Title III Social Security and Employment Services Fund (Fund 52)

A Transfer In to Fund 52 from Fund 55 was recorded as Other Revenues in Fund 52, resulting in an overstatement of revenues in Fund 52. An adjusting entry was recorded in the amount of \$11 million to reclassify it from Other Revenues to Transfer In for the Fund.

Unemployment Compensation Special Administration Fund (Fund 55)

A Transfer Out from Fund 55 to Fund 52 was recorded as Employment and Economic Development Expenditures in Fund 55, resulting in an overstatement of expenditures in Fund 55. An adjusting entry was recorded in the amount of \$11 million to reclassify it from Expenditures to Transfer Out for the Fund.

Master Bond Fund (Fund 1368)

The Department wrote off \$4.4 million of unamortized bond issuances costs in the current year interest expense. An adjusting entry in the amount of \$4.4 million was recorded to restate opening net position and to reduce interest expense for the current fiscal year. Also, the restatement was not properly disclosed in the financial statements.

Paragraph 112 of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis—for State and Local Governments*, states that transfers should be reported as other financing uses in the funds making transfers and as other financing sources in the funds receiving transfers.

Paragraph 34 of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, states accounting changes adopted to conform to the provisions of this Statement should be applied retroactively by restating financial statements, if practical, for all periods presented. If restatement is not practical, the cumulative effect of applying this Statement, if any, should be reported as a restatement of beginning net position or fund balance, as appropriate, for the earliest period restated. In the period this Statement is first applied, the financial statements should disclose the nature of any restatement and its effect.

Fiscal Control and Internal Auditing Act (Act) (30 ILCS 10/3001) requires the Department to establish and maintain a system or systems of internal fiscal and administrative controls, which shall provide reasonable assurance that revenues, expenditures, and transfers of assets, resources or funds applicable to operations are properly recorded and accounted for to permit preparation of accounts and reliable financial and statistical reports. When estimation is used to record financial statement amounts, a subsequent analysis should be performed to determine if the estimate should be updated or corrected to ensure reasonable amounts are being recorded in the financial statements.

**State of Illinois
Department of Employment Security
Schedule of Finding
For the Year Ended June 30, 2014**

Current Finding - *Government Auditing Standards*

2014-001 Inadequate Controls Over Financial Close and Reporting

The Department was aware of GASB 65 with respect to the cost of issuance (COI) of the bonds. For GAAP/CAFR reporting purposes, the Comptroller required that the unamortized portion of COI as of 6/30/13 in the amount of \$4,435,991 be expensed in FY 2014 and not be restated in the beginning fund balance. The GAAP reporting package does not accommodate adjustments to beginning balances of balance sheet accounts. The Department's financial statements also reported a current expense in conformity with the CAFR. This was fully disclosed in the notes to the financial statements.

During lapse period of FY 2013, \$11 million was transferred from Fund 055 to Fund 052 which was initially reported as an accrual in our FY13 GAAP package. Upon review, it was determined that it should have been recorded as due to/from other funds. Instead of reclassifying, the Comptroller's office removed the accrual for State reporting purposes because it would have been eliminated at the financial statement level anyway. During FY 2014, when cash was transferred, we recorded it as an expense in Fund 055 and as revenue in Fund 052 and did not subsequently reclassify it as a transfer. Due to retirements of key staff, this was the first year for new and inexperienced staff preparing the GAAP package and the Department's financial statements.

Inadequate internal controls over financial close and reporting prevent the Department from preparing financial statements in accordance with GAAP and could result in inaccurate, incomplete and untimely preparation of 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. 2014-001, 2013-001)

Recommendation

We recommend the Department improve controls over yearend financial closure and reporting to enable accurate presentation and disclosure of the Department's financial statements.

Department Response

We accept the recommendation. The department will continue training of staff and will review yearend financial closure procedures to ensure accurate presentation of the Department's financial statements.

**State of Illinois
Department of Employment Security**

Nonshared Proprietary Funds

Financial Statements

For the Year Ended June 30, 2014

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, 2014**

FINANCIAL STATEMENT REPORT SUMMARY

The audit of the accompanying financial statements of the State of Illinois, Department of Employment Security (Department) were performed by McGladrey LLP as of and for the year ended June 30, 2014.

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 pages 48-49 of this report as item 2014-001 (Inadequate Controls Over Financial Close and Reporting).

EXIT CONFERENCE

In correspondence received from Linda DeMore, Chief Financial Officer, on December 31, 2014, the Department elected to waive a formal exit conference. The response to the recommendation was provided by Linda Demore, Chief Financial Officer, in a letter dated December 30, 2014.



Independent Auditor's Report

Honorable William G. Holland
Auditor General
State of Illinois
Illinois Department of Employment Security

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 Funds) of the State of Illinois, Department of Employment Security (Department), as of and for the year ended June 30, 2014, 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 Funds of the Department, as of June 30, 2014, 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 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, 2014, 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.

As discussed in Note 11 to the financial statements, during the year ended June 30, 2014, the Department implemented the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which required a restatement of opening net position of \$4,436. 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 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 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 is presented for purposes of additional analysis and is not a required part of the financial statements.

The combining statement of net position (deficit), statement of revenues, expenses, and changes in net position and statement of cash flows 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 combining statement of net position (deficit), statement of revenues, expenses, and changes in net position and statement of cash flows 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 January 20, 2015 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.

The image shows a handwritten signature in black ink that reads "McGladrey LLP". The signature is written in a cursive, flowing style.

Schaumburg, Illinois
January 20, 2015

State of Illinois
Department of Employment Security

Individual Nonshared Proprietary Funds
Statement of Net Position
June 30, 2014
(Amounts in \$000's)

	Unemployment Compensation Trust Fund
Current assets	
Cash and cash equivalents	\$ 130,200
Deposits held by federal government	1,341,107
Receivables, net	
Taxes	649,128
Intergovernmental	19,865
Other	211,366
Due from State funds	5,786
Due from component units	229
Total current assets	<u>2,357,681</u>
Current liabilities	
Benefit payments payable	128,829
Intergovernmental payables	4,803
Due to other State funds	2,188
Accrued bond interest expense	2,178
Revenue bonds payable, plus unamortized bond premium of \$29,193	<u>197,513</u>
Total current liabilities	<u>335,511</u>
Noncurrent liabilities	
Revenue bonds payable, plus unamortized bond premium of \$52,824	<u>935,909</u>
Total liabilities	<u>1,271,420</u>
Net position (deficit)	
Restricted for payment of benefits	2,063,028
Unrestricted	<u>(976,767)</u>
Total net position	<u>\$ 1,086,261</u>

See Notes to Financial Statements.

State of Illinois
 Department of Employment Security

Individual Nonshared Proprietary Funds
 Statement of Revenues, Expenses, and Changes in Net Position
 Year Ended June 30, 2014
 (Amounts in \$000's)

	Unemployment Compensation Trust Fund
Operating revenues	
Contributions - unemployment taxes	\$ 2,643,591
Federal government	574,093
Total operating revenues	<u>3,217,684</u>
Operating expenses	
Benefit payments and refunds	<u>2,736,614</u>
Total operating expenses	<u>2,736,614</u>
Operating income	<u>481,070</u>
Nonoperating revenues	
Interest and investment income	25,356
Interest expense	(22,078)
Other nonoperating revenues	413
Total nonoperating revenues	<u>3,691</u>
Income before transfers	<u>484,761</u>
Other financing sources (uses)	
Transfers in	345,608
Transfers out	<u>(377,345)</u>
Total other financing sources (uses)	<u>(31,737)</u>
Change in net position	453,024
Net position, July 1, 2013, as restated	<u>633,237</u>
Net position, June 30, 2014	<u>\$ 1,086,261</u>

See Notes to Financial Statements.

**State of Illinois
Department of Employment Security**

**Individual Nonshared Proprietary Funds
Statement of Cash Flows
Year Ended June 30, 2013
(Amounts in \$000's)**

	Unemployment Compensation Trust Fund
<hr/>	
Cash flows from operating activities	
Contributions - unemployment taxes received	\$ 2,701,847
Federal grants received	614,690
Unemployment benefits paid	(2,768,338)
Net cash provided by operating activities	<u>548,199</u>
 Cash flows from noncapital financing activities	
Principal paid on revenue bonds	(215,480)
Interest paid on revenue bonds	(61,312)
Miscellaneous receipts - FUTA credit	424
Transfers in	344,959
Transfers out	(377,744)
Net cash used in noncapital financing activities	<u>(309,153)</u>
 Cash flows from investing activity	
Interest and investment income	<u>25,356</u>
Net cash provided by investing activity	<u>25,356</u>
 Net increase in cash and cash equivalents	264,402
 Cash and cash equivalents, July 1, 2013	<u>1,206,905</u>
 Cash and cash equivalents, June 30, 2014	<u>\$ 1,471,307</u>

State of Illinois
Department of Employment Security

Individual Nonshared Proprietary Funds
Statement of Cash Flows (Continued)
Year Ended June 30, 2014
(Amounts in \$000's)

	Unemployment Compensation Trust Fund
<hr/>	
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 481,070
Adjustments to reconcile operating income to net cash provided by operating activities:	
Provision for uncollectible accounts	21,912
Changes in assets and liabilities:	
Receivables	35,447
Intergovernmental receivables	43,404
Due from State funds	1,406
Accounts payable and accrued liabilities	(35,402)
Intergovernmental payables	362
Net cash provided by operating activities	<u>\$ 548,199</u>

See Notes to Financial Statements.

**State of Illinois
Department of Employment Security**

**Individual Nonshared Proprietary Funds
Notes to Financial Statements
June 30, 2014
(Amounts in \$000's)**

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 funds have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB). To facilitate 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 Funds
Notes to Financial Statements
June 30, 2014
(Amounts in \$000's)**

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, 2014, 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 operating expenses by the Department management. Interest expense on MBF is classified as noncapital financing activity. The Department management classifies expenses based on the purposes of the funds to which it was created.

State of Illinois
Department of Employment Security

Individual Nonshared Proprietary Funds
Notes to Financial Statements
June 30, 2014
(Amounts in \$000's)

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.

**State of Illinois
Department of Employment Security**

**Individual Nonshared Proprietary Funds
Notes to Financial Statements
June 30, 2014
(Amounts in \$000's)**

F. 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 \$2,063,028 as of June 30, 2014.
- b) Unrestricted net position consists of net position that does not meet the criteria of the preceding category.

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

G. 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.

H. New Accounting Pronouncements

Effective July 1, 2013, the Department adopted the following accounting pronouncements:

- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term "deferred" in financial statement presentations. The Department implemented this Statement for the year ending June 30, 2014.

The implementation of this Statement required a restatement to the Department's financial statements to write off unamortized bond issuance costs. See Note 11.

Note 3. Deposits

At June 30, 2014, cash and cash equivalents for the UTF for a locally held fund had a carrying amount in the accompanying financial statements of \$34,932.

At June 30, 2014, cash on deposit for the UTF for locally held funds has a bank balance of \$1,992 and a carrying balance of \$1,419. Bank balances are fully insured by the Federal Depository Insurance Corporation (FDIC).

**State of Illinois
Department of Employment Security**

**Individual Nonshared Proprietary Funds
Notes to Financial Statements
June 30, 2014
(Amounts in \$000's)**

Deposits in Illinois Funds and in the custody of the State Treasurer for the UTF totaled \$33,513 and have a carrying amount of \$33,513 at June 30, 2014. The State Treasurer is the custodian of the State's cash and cash equivalents for funds maintained in the State Treasury. The Department independently manages cash and cash equivalents maintained outside the State Treasury. The State of Illinois' CAFR may be obtained by writing to the State Comptroller's Office, Financial Reporting Department, 325 West Adams Street, Springfield, Illinois, 62704-1871.

At June 30, 2014, the Master Bond Fund for locally held funds had a carrying amount of \$95,268 and a bank balance of \$95,268. Those deposits are invested in the Goldman Sachs Financial Square Government Fund and held by the Bond Trustee in accordance with the Master Indenture of Trust.

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

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

Deposits held by the federal government totaled \$1,341,107 as of June 30, 2014. These deposits are pooled and invested with other States' funds and are not categorized as to credit risk because the Department does not own individual securities.

At June 30, 2014, deposit for the MBF locally held fund, is as follows:

Goldman Sachs Financial	Credit Rating	Maturity	Carrying amount	Fair Value
Square Government Fund	AAAm by S & P Aaa-mf by Moody's	<90 days	\$95, 268	\$95,269

This is restricted for the purposes described in Note 1. Those deposits are invested in the Goldman Sachs Financial Square Government Fund and held by the Bond Trustee in accordance with the Master Indenture of Trust.

Custodial credit risk is the risk that in the event of custodian failure, investment principal may not be returned. At June 30, 2014, investments consisted solely of money market funds held at Goldman Sachs. An investment in a money market portfolio is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.

State of Illinois
Department of Employment Security

Individual Nonshared Proprietary Funds
Notes to Financial Statements
June 30, 2014
(Amounts in \$000's)

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.

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 table above for credit risk ratings.

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, 2014, are as follows:

Unemployment taxes	\$ 826,762
Interest and penalties receivables on taxes	<u>117,921</u>
Total taxes receivable	944,683
Less allowance for uncollectible taxes	<u>(295,555)</u>
Taxes receivable, net	<u><u>\$ 649,128</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 \$18,952 and \$913, respectively, at June 30, 2014.

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, 2014 are as follows:

Other receivables	\$ 707,432
Less allowance for uncollectible taxes	<u>(496,066)</u>
Other receivable, net	<u><u>\$ 211,366</u></u>

**State of Illinois
Department of Employment Security**

**Individual Nonshared Proprietary Funds
Notes to Financial Statements
June 30, 2014
(Amounts in \$000's)**

Note 7. Interfund Balances and Activities

(a) Balances Due to and from Other Funds

The following balances at June 30, 2014 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	\$ 5,661	\$ -
Due from Operating Fund for reimbursement of unemployment benefits to former employees of the Department	52	-
Due from the Department of Transportation for reimbursement of unemployment benefits to former employees of the Department	73	-
Due to Operating Fund for discretionary transfers of penalties and interests	-	2,185
Due to Operating fund for discretionary transfers of nonsufficient funds (NSF) fees	-	3
Totals	\$ 5,786	\$ 2,188

Due from component units of the State of Illinois balance at June 30, 2014 of \$229 represents reimbursement of unemployment benefits paid to employees of State universities.

(b) Transfers to Other Funds

Interfund transfers out for the year ended June 30, 2014, were as follows:

Description/Purpose	Amount
Discretionary transfers of penalties and interests to Operating Fund	\$ 31,725
Discretionary transfers of NSF fees to Operating Fund	12
Totals	\$ 31,737

**State of Illinois
Department of Employment Security**

**Individual Nonshared Proprietary Funds
Notes to Financial Statements
June 30, 2014
(Amounts in \$000's)**

Note 8. Intergovernmental Payables

Intergovernmental payables of \$4,803 represented by \$4,797 of interstate combined wage claim benefits payable and a recoupment from benefits due to Federal Additional Compensation of \$6, payable in July 2014.

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 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 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.

Series 2012C Bonds - original issue \$110,000, dated July 31, 2012, provides for retirement of principal on June 15, 2021 and 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 the \$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.

**State of Illinois
Department of Employment Security**

**Individual Nonshared Proprietary Funds
Notes to Financial Statements
June 30, 2014
(Amounts in \$000's)**

The following is a summary of the bond transactions of the Department for the year ended June 30, 2014:

Series	Balance as of June 30, 2013	Additions	Retirements	Balance as of June 30, 2014	Amount Due Within One Year
2012A	\$ 559,020	\$ -	\$ (160,790)	\$ 398,230	\$ 168,320
2012B	707,865	-	(54,690)	653,175	-
Unamortized premium	120,833	-	(38,816)	82,017	-
Total	\$ 1,387,718	\$ -	\$ (254,296)	\$ 1,133,422	\$ 168,320

Bond maturity was due on December 15, 2013 and June 15, 2014 in Series 2012A; \$43,455 was redeemed on December 16, 2013, and \$117,335 was redeemed on June 16, 2014. Additionally, interest payments of \$31,149 and \$30,162 for Series A and Series B 2012 bonds, were paid on December 16, 2013 and June 16, 2014, respectively.

Accrued bond interest expense as of June 30, 2014 totaled \$2,178.

The future debt service requirements for revenue bonds as of June 30, 2014, including interest payments are as follows:

Fiscal Period Ending June 30,	Principal	Interest	Total
2015	\$ 168,320	\$ 51,166	\$ 219,486
2016	176,690	42,765	219,455
2017	185,635	33,939	219,574
2018	194,845	24,614	219,459
2019	198,885	14,768	213,653
2020	127,030	4,573	131,603
Total	\$ 1,051,405	\$ 171,825	\$ 1,223,230

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

The Department has pledged future fund building receipts from employer tax contributions, net of nominal bond trustee administrative expenses, to repay \$1,469,940 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 \$1,223,230. Principal and interest paid for the current year was \$276,792 and total fund building receipts were \$344,952.

**State of Illinois
Department of Employment Security**

**Individual Nonshared Proprietary Funds
Notes to Financial Statements
June 30, 2014
(Amounts in \$000's)**

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 funds financial statements.

Note 11. Restatement

As shown in the following table, the net position of the Unemployment Compensation Trust Fund has been restated for the implementation of GASB Statement No. 65, *Items Previously Recorded as Assets and Liabilities*.

Net position, June 30, 2013	\$ 637,673
Bond issuance cost	<u>(4,436)</u>
Net position, June 30, 2013, as restated	<u><u>\$ 633,237</u></u>

SUPPLEMENTARY

State of Illinois
Department of Employment Security

Individual Nonshared Proprietary Funds
Combining Statement of Net Position (Deficit)
June 30, 2014
(Amounts in \$000's)

	Unemployment Compensation Trust Fund	Master Bond Fund	Eliminations	Total
Current assets				
Cash and cash equivalents	\$ 34,932	\$ 95,268	\$ -	\$ 130,200
Deposits held by federal government	1,341,107	-	-	1,341,107
Receivables, net				
Taxes	649,128	-	-	649,128
Intergovernmental	19,865	-	-	19,865
Other	211,366	-	-	211,366
Due from State funds	5,786	63,565	(63,565)	5,786
Due from component units	229	-	-	229
Total current assets	2,262,413	158,833	(63,565)	2,357,681
Current liabilities				
Benefit payments payable	128,829	-	-	128,829
Intergovernmental payables	4,803	-	-	4,803
Due to other State funds	65,753	-	(63,565)	2,188
Accrued bond interest expense	-	2,178	-	2,178
Revenue bonds payable, plus unamortized bond premium of \$29,193	-	197,513	-	197,513
Total current liabilities	199,385	199,691	(63,565)	335,511
Noncurrent liabilities				
Revenue bonds payable, plus unamortized bond premium of \$52,824	-	935,909	-	935,909
Total liabilities	199,385	1,135,600	(63,565)	1,271,420
Net position (deficit)				
Restricted for payment of benefits	2,063,028	-	-	2,063,028
Unrestricted	-	(976,767)	-	(976,767)
Total net position (deficit)	\$ 2,063,028	\$ (976,767)	\$ -	\$ 1,086,261

See Notes to Financial Statements.

State of Illinois
Department of Employment Security

Individual Nonshared Proprietary Funds
Combining Statement of Revenues, Expenses, and Changes in Net Position
Year Ended June 30, 2014
(Amounts in \$000's)

	Unemployment Compensation Trust Fund	Master Bond Fund	Eliminations	Total
Operating revenues				
Contributions - unemployment taxes	\$ 2,643,591	\$ -	\$ -	\$ 2,643,591
Federal government	574,093	-	-	574,093
Total operating revenues	3,217,684	-	-	3,217,684
Operating expenses				
Benefit payments and refunds	2,736,614	-	-	2,736,614
Operating income	481,070	-	-	481,070
Nonoperating revenues				
Interest and investment income	25,349	7	-	25,356
Interest expense	-	(22,078)	-	(22,078)
Other nonoperating revenues	413	-	-	413
Total nonoperating revenues	25,762	(22,071)	-	3,691
Income before transfers	506,832	(22,071)	-	484,761
Other financing sources (uses)				
Transfers in	7	345,601	-	345,608
Transfers out	(377,338)	(7)	-	(377,345)
Total other financing sources (uses)	(377,331)	345,594	-	(31,737)
Net income	129,501	323,523	-	453,024
Net position, July 1, 2013, as restated	1,933,527	(1,300,290)	-	633,237
Net position, June 30, 2014	\$ 2,063,028	\$ (976,767)	\$ -	\$ 1,086,261

State of Illinois
Department of Employment Security

Individual Nonshared Proprietary Funds
Combining Statement of Cash Flows
Year Ended June 30, 2014
(Amounts in \$000's)

	Unemployment Compensation Trust Fund	Master Bond Fund	Eliminations	Total
Cash flows from operating activities				
Contributions - unemployment taxes received	\$ 2,701,847	\$ -	\$ -	\$ 2,701,847
Federal grants received	614,690	-	-	614,690
Unemployment benefits paid	(2,768,338)	-	-	(2,768,338)
Net cash provided by operating activities	548,199	-	-	548,199
Cash flows from noncapital financing activities				
Principal paid on revenue bonds	-	(215,480)	-	(215,480)
Interest paid on revenue bonds	-	(61,312)	-	(61,312)
Miscellaneous receipts - FUTA credit	424	-	-	424
Transfers in	7	344,952	-	344,959
Transfers out	(377,737)	(7)	-	(377,744)
Net cash provided by (used in) noncapital financing activities	(377,306)	68,153	-	(309,153)
Cash flows from investing activity				
Interest and investment income	25,349	7	-	25,356
Net cash provided by investing activity	25,349	7	-	25,356
Net increase in cash and cash equivalents	196,242	68,160	-	264,402
Cash and cash equivalents, July 1, 2013	1,179,797	27,108	-	1,206,905
Cash and cash equivalents, June 30, 2014	\$ 1,376,039	\$ 95,268	\$ -	\$ 1,471,307

State of Illinois
 Department of Employment Security

Individual Nonshared Proprietary Funds
 Combining Statement of Cash Flows (Continued)
 Year Ended June 30, 2014
 (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	\$ 481,070	\$ -	\$ -	\$ 481,070
Adjustments to reconcile operating income to net cash provided by operating activities:				
Provision for uncollectible accounts	21,912	-	-	21,912
Changes in assets and liabilities:				
Receivables	35,447	-	-	35,447
Intergovernmental receivables	43,404	-	-	43,404
Due from State funds	1,406	-	-	1,406
Accounts payable and accrued liabilities	(35,402)	-	-	(35,402)
Intergovernmental payables	362	-	-	362
Net cash provided by operating activities	<u>\$ 548,199</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 548,199</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 William G. Holland
Auditor General
State of Illinois
Illinois Department of Employment Security

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 Funds) of the State of Illinois, Department of Employment Security (Department), as of and for the year ended June 30, 2014, and the related notes to the financial statements for the year ended June 30, 2014, and have issued our report thereon dated January 20, 2015.

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. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of finding as item 2014-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Individual Nonshared Proprietary 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*.

Department's Response to Finding

The Department's response to the finding identified in our audit is described in the accompanying schedule of finding. 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.

McGladrey LLP

Schaumburg, Illinois
January 20, 2015

**State of Illinois
Department of Employment Security
Schedule of Finding
For the Year Ended June 30, 2014**

Current Finding - Government Auditing Standards

2014-001 Inadequate Controls Over Financial Close and Reporting

The Department of Employment Security (Department) did not have adequate controls over financial close and reporting to allow management or employees in the normal course of performing their assigned functions to prevent or detect financial statement misstatements in a timely manner.

During our audit, we noted the following errors that required audit adjustments to the financial statements:

Title III Social Security and Employment Services Fund (Fund 52)

A Transfer In to Fund 52 from Fund 55 was recorded as Other Revenues in Fund 52, resulting in an overstatement of revenues in Fund 52. An adjusting entry was recorded in the amount of \$11 million to reclassify it from Other Revenues to Transfer In for the Fund.

Unemployment Compensation Special Administration Fund (Fund 55)

A Transfer Out from Fund 55 to Fund 52 was recorded as Employment and Economic Development Expenditures in Fund 55, resulting in an overstatement of expenditures in Fund 55. An adjusting entry was recorded in the amount of \$11 million to reclassify it from Expenditures to Transfer Out for the Fund.

Master Bond Fund (Fund 1368)

The Department wrote off \$4.4 million of unamortized bond issuances costs in the current year interest expense. An adjusting entry in the amount of \$4.4 million was recorded to restate opening net position and to reduce interest expense for the current fiscal year. Also, the restatement was not properly disclosed in the financial statements.

Paragraph 112 of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis—for State and Local Governments*, states that transfers should be reported as other financing uses in the funds making transfers and as other financing sources in the funds receiving transfers.

Paragraph 34 of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, states accounting changes adopted to conform to the provisions of this Statement should be applied retroactively by restating financial statements, if practical, for all periods presented. If restatement is not practical, the cumulative effect of applying this Statement, if any, should be reported as a restatement of beginning net position or fund balance, as appropriate, for the earliest period restated. In the period this Statement is first applied, the financial statements should disclose the nature of any restatement and its effect.

Fiscal Control and Internal Auditing Act (Act) (30 ILCS 10/3001) requires the Department to establish and maintain a system or systems of internal fiscal and administrative controls, which shall provide assurance that revenues, expenditures, and transfers of assets, resources or funds applicable to operations are properly recorded and accounted for to permit preparation of accounts and reliable financial and statistical reports. When estimation is used to record financial statement amounts, a subsequent analysis should be performed to determine if the estimate should be updated or corrected to ensure reasonable amounts are being recorded in the financial statements.

**State of Illinois
Department of Employment Security
Schedule of Finding
For the Year Ended June 30, 2014**

Current Finding - *Government Auditing Standards*

2014-001 Inadequate Controls Over Financial Close and Reporting

The Department was aware of GASB 65 with respect to the cost of issuance (COI) of the bonds. For GAAP/CAFR reporting purposes, the Comptroller required that the unamortized portion of COI as of 6/30/13 in the amount of \$4,435,991 be expensed in FY 2014 and not be restated in the beginning fund balance. The GAAP reporting package does not accommodate adjustments to beginning balances of balance sheet accounts. The Department's financial statements also reported a current expense in conformity with the CAFR. This was fully disclosed in the notes to the financial statements.

During lapse period of FY 2013, \$11 million was transferred from Fund 055 to Fund 052 which was initially reported as an accrual in our FY13 GAAP package. Upon review, it was determined that it should have been recorded as due to/from other funds. Instead of reclassifying, the Comptroller's office removed the accrual for State reporting purposes because it would have been eliminated at the financial statement level anyway. During FY 2014, when cash was transferred, we recorded it as an expense in Fund 055 and as revenue in Fund 052 and did not subsequently reclassify it as a transfer. Due to retirements of key staff, this was the first year for new and inexperienced staff preparing the GAAP package and the Department's financial statements.

Inadequate internal controls over financial close and reporting prevent the Department from preparing financial statements in accordance with GAAP and could result in inaccurate, incomplete and untimely preparation of 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. 2014-001, 2013-001)

Recommendation

We recommend the Department improve controls over yearend financial closure and reporting to ensure accurate presentation and disclosure of the Department's financial statements.

Department Response

We accept the recommendation. The department will continue training of staff and will review yearend financial closure procedures to ensure accurate presentation of the Department's financial statements.