

**State of Illinois
Department of Employment Security**

**Individual Nonshared Proprietary Fund
Financial Statements
For the Year Ended June 30, 2017**

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



**State of Illinois
Department of Employment Security
Financial Audit
For the Year Ended June 30, 2017**

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**State of Illinois
Department of Employment Security
Agency Officials
June 30, 2017**

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

The Department's Administrative offices are located at:

33 S State St
Chicago, IL 60603-2802

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

**State of Illinois
Department of Employment Security**

**Financial Statements
For the Year Ended June 30, 2017**

FINANCIAL STATEMENT REPORT SUMMARY

The audit of the accompanying financial statements of the State of Illinois, Department of Employment Security (Department) was performed by RSM US LLP as of and for the year ended June 30, 2017.

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 and Response on page 25 of this report as item 2017-001 (Inadequate Controls over Financial Close and Reporting).

EXIT CONFERENCE

In correspondence received from Linda DeMore, Chief Financial Officer, on December 19, 2017, the Department elected to waive a formal exit conference. The response to the recommendation was provided by James Schreiber, Audit Liaison, in correspondence dated December 21, 2017.

Independent Auditor's Report

Honorable Frank J. Mautino
Auditor General
State of Illinois

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the Unemployment Compensation Trust Fund (Individual Nonshared Proprietary Fund) of the State of Illinois, Department of Employment Security (Department), as of and for the year ended June 30, 2017, and the related notes to the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Individual Nonshared Proprietary Fund of the Department, as of June 30, 2017, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2, the financial statements present only the Individual Nonshared Proprietary Fund and do not purport to, and do not, present fairly the financial position of the State of Illinois or the Department as of June 30, 2017, and the changes in its financial position, and where applicable, cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis for the Individual Nonshared Proprietary Fund, that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements 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 Proprietary Fund of the State of Illinois, Department of Employment Security's financial statements. The combining statement of net position, statement of revenues, expenses, and changes in net position and statement of cash flows are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining statement of net position, statement of revenues, expenses, and changes in net position and statement of cash flows are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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, statement of revenues, expenses, and changes in net position and statement of cash flows are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2017 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the 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 warding agencies and pass-through entities, and is not intended to be and should not be used, by anyone other than these specified parties.

SIGNED ORIGINAL ON FILE

Schaumburg, Illinois
December 22, 2017

State of Illinois
 Department of Employment Security

Individual Nonshared Proprietary Fund
 Statement of Net Position
 June 30, 2017
 (Amounts in \$000's)

	Unemployment Compensation Trust Fund
Current assets	
Cash and cash equivalents	\$ 169,592
Deposits held by federal government	1,535,405
Receivables, net	
Taxes	420,713
Intergovernmental	30,630
Other	77,154
Due from State funds	34,907
Due from component units of the State	137
Total current assets	<u>2,268,538</u>
Current liabilities	
Benefit payments payable	135,791
Intergovernmental payables	5,081
Due to other State funds	1,305
Total current liabilities	<u>142,177</u>
Net position	
Restricted for payment of benefits	1,971,044
Unrestricted	155,317
Total net position	<u>\$ 2,126,361</u>

See Notes to Financial Statements.

State of Illinois
 Department of Employment Security

Individual Nonshared Proprietary Fund
 Statement of Revenues, Expenses, and Changes in Net Position
 Year Ended June 30, 2017
 (Amounts in \$000's)

	Unemployment Compensation Trust Fund
Operating revenues	
Contributions - unemployment taxes	\$ 1,968,746
Federal government	5,293
Total operating revenues	<u>1,974,039</u>
Operating expenses	
Benefit payments and refunds	<u>1,841,460</u>
Total operating expenses	<u>1,841,460</u>
Operating income	<u>132,579</u>
Nonoperating revenues (expenses)	
Interest and investment income	34,470
Other revenue	6,937
Interest expense	(4,787)
Total nonoperating revenues	<u>36,620</u>
Income before transfers	<u>169,199</u>
Other financing sources (uses)	
Transfers in	1
Transfers out	<u>(21,209)</u>
Total other financing sources (uses)	<u>(21,208)</u>
Change in net position	147,991
Net position, July 1, 2016	<u>1,978,370</u>
Net position, June 30, 2017	<u>\$ 2,126,361</u>

See Notes to Financial Statements.

State of Illinois
 Department of Employment Security

Individual Nonshared Proprietary Fund
 Statement of Cash Flows
 Year Ended June 30, 2017
 (Amounts in \$000's)

	Unemployment Compensation Trust Fund
Cash flows from operating activities	
Contributions - unemployment taxes received	\$ 2,109,060
Federal grants received	5,377
Unemployment benefits paid	(1,843,237)
Net cash provided by operating activities	<u>271,200</u>
Cash flows from noncapital financing activities	
Principal paid on revenue bonds	(380,480)
Interest paid on revenue bonds	(13,447)
Miscellaneous expense - FUTA payments	32
Transfers in	(2,988)
Transfers out	(20,880)
Net cash used in noncapital financing activities	<u>(417,763)</u>
Cash flows from investing activity	
Interest and investment income	<u>34,470</u>
Net cash provided by investing activity	<u>34,470</u>
Net decrease in cash and cash equivalents	(112,093)
Cash and cash equivalents, July 1, 2016	<u>1,817,090</u>
Cash and cash equivalents, June 30, 2017	<u>\$ 1,704,997</u>

(Continued)

State of Illinois
Department of Employment Security

Individual Nonshared Proprietary Fund
Statement of Cash Flows (Continued)
Year Ended June 30, 2017
(Amounts in \$000's)

	Unemployment Compensation Trust Fund
<hr/>	
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 132,579
Adjustments to reconcile operating income to net cash provided by operating activities:	
Changes in assets and liabilities:	
Receivables	155,030
Intergovernmental receivables	(2,605)
Due from State funds	(12,384)
Due from component units	237
Accounts payable and accrued liabilities	(2,647)
Intergovernmental payables	990
Net cash provided by operating activities	<u><u>\$ 271,200</u></u>

See Notes to Financial Statements.

**State of Illinois
Department of Employment Security**

**Individual Nonshared Proprietary Fund
Notes to Financial Statements
June 30, 2017
(Amounts in \$000's)**

Note 1. Description of Funds

The State of Illinois, Department of Employment Security (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 the Unemployment Compensation Trust Fund:

a. Unemployment Compensation Trust Fund

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

b. Master Bond Fund

The Master Bond Fund (MBF) accounts for fund building receipts which are used for the payment of obligations in connection with bond issues, including principal and interest and bond administrative expenses. This locally held fund was established July 2012 by an amendment to the Unemployment Insurance Act by the Authorizing Legislation (Public Act 93-0634, as supplemented by Public Act 93-0676) where employers' contributions attributable to the fund building rate shall be directed for deposit into the MBF. The authorizing legislation authorizes the State to issue bonds to (1) repay principal and interest on unpaid advances to the State's unemployment trust account within the Federal Unemployment Trust Fund; (2) pay unemployment benefits by depositing a portion of the proceeds in the State's unemployment trust account within the Federal Unemployment Trust Fund; and (3) pay costs of issuance. The MBF is not appropriated by the General Assembly and is intended to be self-supporting.

Note 2. Summary of Significant Accounting Policies

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

A. Reporting Entity

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

**State of Illinois
Department of Employment Security**

**Individual Nonshared Proprietary Fund
Notes to Financial Statements
June 30, 2017
(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, 2017 nor changes in its financial position and cash flows for the year then ended in conformity with GAAP.

B. Basis of Presentation

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

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

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

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

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

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

**State of Illinois
Department of Employment Security**

**Individual Nonshared Proprietary Fund
Notes to Financial Statements
June 30, 2017
(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.

F. Operating Revenues

The negative Federal Government Revenue balances shown below are because the Programs have come to an end. Those Programs include the Emergency Unemployment Programs, Temporary Extended Unemployment Compensation, Federal Additional Compensation and Extended Benefits. The amount has been historically reported as a net revenue amount consisting of, total Federal receipts less the recouped cash receipts from Claimants. Under Federal Guidelines the recouped receipts are reported as an offset of federal revenue receipts.

**State of Illinois
Department of Employment Security**

**Individual Nonshared Proprietary Fund
Notes to Financial Statements
June 30, 2017
(Amounts in \$000's)**

Program	Revenue
Unemployment Compensation for Federal Employees	\$ 7,871
Unemployment Compensation for Ex-service members	7,798
Temporary Extended Unemployment Compensation	(123)
Emergency Unemployment Compensation 2008 (General Revenue funded)	(6,396)
Emergency Unemployment Compensation 2008 (FUTA Funded)	(378)
Federal Additional Compensation	(657)
Extended Benefits	(648)
Emergency Unemployment Compensation 2008 (Non General Revenue)	(2,091)
Miscellaneous Recoupment	(83)
Total	\$5,293

G. Net Position

Net position is displayed in the following components:

- 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 \$1,976,787 as of June 30, 2017.
- b) Unrestricted consists of net position that does not meet the definition of "restricted".

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.

H. Use of Estimates

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

**State of Illinois
Department of Employment Security**

**Individual Nonshared Proprietary Fund
Notes to Financial Statements
June 30, 2017
(Amounts in \$000's)**

Note 3. Deposits and Investments

At June 30, 2017, cash and cash equivalents for the UTF for a locally held fund had a carrying amount in the accompanying financial statements of \$63,683 and a bank balance of \$65,994.

Custodial credit risk relating to deposits is the risk that in the event of a bank failure, the Department's deposits may not be returned to it. As of June 30, 2017, the Department's deposits held outside the State Treasury were adequately collateralized and therefore not exposed to custodial credit risk.

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

At June 30, 2017, the Master Bond Fund for locally held funds had a carrying amount of \$105,909. That amount is invested in the Goldman Sachs Financial Square Government Fund and held by the Bond Trustee in accordance with the Master Indenture of Trust. This money market fund has a credit rating of AAAM by S&P and Aaa-mf by Moody's. This amount is restricted for the purposes described in Note 1. The fund categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. At June 30, 2017, the \$105,909 in the money market fund was valued using quoted market prices (Level 1 inputs).

Investments held by the federal government totaled \$1,535,405 as of June 30, 2017, and represents an external investment pool in which the Department's funds are pooled along with other participating State's funds. This pool is valued at amortized cost. It is not rated in regards to credit risk.

Custodial credit risk is the risk that in the event of custodian failure, investment principal may not be returned. At June 30, 2017, investments subject to this risk consisted of money market funds with Goldman Sachs, held by the bond trustee. These amounts are not exposed to custodial credit risk as they are held with the bond trustee in the Department's name.

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

**State of Illinois
Department of Employment Security**

**Individual Nonshared Proprietary Fund
Notes to Financial Statements
June 30, 2017
(Amounts in \$000's)**

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, 2017, are as follows:

Unemployment taxes	\$ 609,929
Interest and penalties receivables on taxes	<u>113,595</u>
Total taxes receivable	723,524
Less allowance for uncollectible taxes	<u>(302,811)</u>
Taxes receivable, net	<u><u>\$ 420,713</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 \$30,412 and \$218, respectively, at June 30, 2017.

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, 2017 are as follows:

Other receivables	\$ 741,764
Less allowance for uncollectible receivables	<u>(664,610)</u>
Other receivable, net	<u><u>\$ 77,154</u></u>

**State of Illinois
Department of Employment Security**

**Individual Nonshared Proprietary Fund
Notes to Financial Statements
June 30, 2017
(Amounts in \$000's)**

Note 7. Interfund Balances and Activities

(a) Balances Due to and from Other Funds

The following balances at June 30, 2017 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	\$ 33,744	\$ -
Due from State Retirement System	1	
Due from the Department of Transportation for reimbursement of unemployment benefits to former employees of the Department	1,162	-
Due to Operating Fund for discretionary transfers of penalties and interests	-	1,303
Due to Operating fund for discretionary transfers of nonsufficient funds (NSF) fees	-	2
Totals	<u>\$ 34,907</u>	<u>\$ 1,305</u>

Due from component units of the State of Illinois balance at June 30, 2017 of \$137 represents reimbursement of unemployment benefits paid to employees of State universities.

(a) Transfers to Other Funds

Interfund transfers in and out for the year ended June 30, 2017, were as follows:

Description/Purpose	Transfer Out to Other Fund	Transfer In from Other Fund
Discretionary transfers of penalties and interests to Operating Fund	\$ 21,200	\$ -
Discretionary transfers of NSF fees to Operating Fund	9	-
Title III fee reimbursement from Operating Fund	-	1
Totals	<u>\$ 21,209</u>	<u>\$ 1</u>

**State of Illinois
Department of Employment Security**

**Individual Nonshared Proprietary Fund
Notes to Financial Statements
June 30, 2017
(Amounts in \$000's)**

Note 8. Intergovernmental Payables

Intergovernmental payables of \$5,081 represent interstate combined wage claim benefits payable.

Note 9. Bonds Payable

On July 31, 2012, the Unemployment Insurance Fund Building Receipts Revenue Bonds, Series 2012 of \$1,469,940 were issued pursuant to the Master Indenture of Trust, dated as of July 18, 2012 with U.S. Bank as Trustee. The payment of principal, premiums and interest is secured by a pledge of and lien on the pledged revenues, the sole source of which is the fund building receipts. The bonds were issued as follows:

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

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

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

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

The bonds were issued due to the depletion of the UTF in July 2009 and continued the 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 Fund
Notes to Financial Statements
June 30, 2017
(Amounts in \$000's)**

Note 9. Bonds Payable (Continued)

The following is a summary of the bond transactions of the Department for the year ended June 30, 2017:

Series	Balance as of June 30, 2016	Additions	Retirements	Balance as of June 30, 2017	Amount Due Within One Year
2012A	\$ 53,220	\$ -	\$ (53,220)	\$ -	\$ -
2012B	327,260	-	(327,260)	-	-
Unamortized premium	14,776	-	(14,776)	-	-
Total	\$ 395,256	\$ -	\$ (395,256)	\$ -	\$ -

The Department pledged future fund building receipts from employer tax contributions, net of nominal bond trustee administrative expenses, to repay \$380,480 in Outstanding 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 were 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 \$0. Principal and interest paid for the current year was \$393,926 and total fund building receipts collected were \$370,478. Funds used to pay off the remaining principal and interest of \$23,448 derived from excess fund building receipts from prior years.

Due to fund building receipts received in excess of projections, the Series B bonds were fully redeemed on June 15, 2017, prior to the projected date of December 15, 2017 as published in the Official Statement, by exercising the available early redemption options.

Note 10. Contingencies

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

**SUPPLEMENTARY
INFORMATION**

State of Illinois
Department of Employment Security

Individual Nonshared Proprietary Fund
Combining Statement of Net Position
June 30, 2017
(Amounts in \$000's)

	Unemployment Compensation Trust Fund	Master Bond Fund	Eliminations	Total
Current assets				
Cash and cash equivalents	\$ 63,683	\$ 105,909	\$ -	\$ 169,592
Deposits held by federal government	1,535,405	-	-	1,535,405
Receivables, net				
Taxes	420,713	-	-	420,713
Intergovernmental	30,630	-	-	30,630
Other	77,154	-	-	77,154
Due from State funds	34,907	49,408	(49,408)	34,907
Due from component units	137	-	-	137
Total current assets	2,162,629	155,317	(49,408)	2,268,538
Current liabilities				
Benefit payments payable	135,791	-	-	135,791
Intergovernmental payables	5,081	-	-	5,081
Due to other State funds	50,713	-	(49,408)	1,305
Total current liabilities	191,585	-	(49,408)	142,177
Net position				
Restricted for payment of benefits	1,971,044	-	-	1,971,044
Unrestricted	-	155,317	-	155,317
Total net position	\$ 1,971,044	\$ 155,317	\$ -	\$ 2,126,361

State of Illinois
Department of Employment Security

Individual Nonshared Proprietary Fund
Combining Statement of Revenues, Expenses, and Changes in Net Position
Year Ended June 30, 2017
(Amounts in \$000's)

	Unemployment Compensation Trust Fund	Master Bond Fund	Eliminations	Total
Operating revenues				
Contributions - unemployment taxes	\$ 1,968,746	\$ -	\$ -	\$ 1,968,746
Federal government	5,293	-	-	5,293
Total operating revenues	<u>1,974,039</u>	<u>-</u>	<u>-</u>	<u>1,974,039</u>
Operating expenses				
Benefit payments and refunds	<u>1,841,460</u>	<u>-</u>	<u>-</u>	<u>1,841,460</u>
Operating income	<u>132,579</u>	<u>-</u>	<u>-</u>	<u>132,579</u>
Nonoperating revenues (expenses)				
Interest and investment income	33,958	512	-	34,470
Other revenues	32	6,905	-	6,937
Interest expense	-	(4,787)	-	(4,787)
Other expense	-	-	-	-
Total nonoperating revenues	<u>33,990</u>	<u>2,630</u>	<u>-</u>	<u>36,620</u>
Income before transfers	<u>166,569</u>	<u>2,630</u>	<u>-</u>	<u>169,199</u>
Other financing sources (uses)				
Transfers in	1	373,467	(373,467)	1
Transfers out	(394,676)	-	373,467	(21,209)
Total other financing sources (uses)	<u>(394,675)</u>	<u>373,467</u>	<u>-</u>	<u>(21,208)</u>
Net (loss) income	<u>(228,106)</u>	<u>376,097</u>	<u>-</u>	<u>147,991</u>
Net position (deficit), July 1, 2016	<u>2,199,150</u>	<u>(220,780)</u>	<u>-</u>	<u>1,978,370</u>
Net position, June 30, 2017	<u>\$ 1,971,044</u>	<u>\$ 155,317</u>	<u>\$ -</u>	<u>\$ 2,126,361</u>

State of Illinois
Department of Employment Security

Individual Nonshared Proprietary Fund
Combining Statement of Cash Flows
Year Ended June 30, 2017
(Amounts in \$000's)

	Unemployment Compensation Trust Fund	Master Bond Fund	Eliminations	Total
Cash flows from operating activities				
Contributions - unemployment taxes received	\$ 2,109,060	\$ -	\$ -	\$ 2,109,060
Federal grants received	5,377	-	-	5,377
Unemployment benefits paid	(1,843,237)	-	-	(1,843,237)
Net cash provided by operating activities	271,200	-	-	271,200
Cash flows from noncapital financing activities				
Principal paid on revenue bonds	-	(380,480)	-	(380,480)
Interest paid on revenue bonds	-	(13,447)	-	(13,447)
Miscellaneous receipts - FUTA credit	32	-	-	32
Transfers in	1	370,478	(373,467)	(2,988)
Transfers out	(394,347)	-	373,467	(20,880)
Net cash used in noncapital financing activities	(394,314)	(23,449)	-	(417,763)
Cash flows from investing activity				
Interest and investment income	33,958	512	-	34,470
Net cash provided by investing activity	33,958	512	-	34,470
Net decrease in cash and cash equivalents	(89,156)	(22,937)	-	(112,093)
Cash and cash equivalents, July 1, 2016	1,688,244	128,846	-	1,817,090
Cash and cash equivalents, June 30, 2017	\$ 1,599,088	\$ 105,909	\$ -	\$ 1,704,997

State of Illinois
 Department of Employment Security

Individual Nonshared Proprietary Fund
 Combining Statement of Cash Flows (Continued)
 Year Ended June 30, 2017
 (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	\$ 132,579	\$ -	\$ -	\$ 132,579
Adjustments to reconcile operating income to net cash provided by operating activities:				
Changes in assets and liabilities:				
Receivables	155,030	-	-	155,030
Intergovernmental receivables	(2,605)	-	-	(2,605)
Due from State funds	(12,384)	-	-	(12,384)
Due from component units	237	-	-	237
Accounts payable and accrued liabilities	(2,647)	-	-	(2,647)
Intergovernmental payables	990	-	-	990
Net cash provided by operating activities	<u>\$ 271,200</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 271,200</u>

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

Honorable Frank J. Mautino
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Unemployment Compensation Trust Fund (Individual Nonshared Proprietary Fund) of the State of Illinois, Department of Employment Security (Department), as of and for the year ended June 30, 2017, and the related notes to the financial statements for the year ended June 30, 2017, and have issued our report thereon dated December 22, 2017.

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(s) 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 Departments internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of finding and response as item 2017-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Individual Nonshared Proprietary Fund of the Department's financial statements 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 and response. The Department's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

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

SIGNED ORIGINAL ON FILE

Schaumburg, Illinois
December 22, 2017

**State of Illinois
Department of Employment Security**

**Schedule of Finding and Response
For the Year Ended June 30, 2017**

Current Finding – *Government Auditing Standards*

2017-001 Inadequate Controls over Financial Close and Reporting

The Illinois Department of Employment Security (Department) did not have adequate controls over financial 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 of the Unemployment Trust Fund (Fund 1138), we noted amounts associated with additional contribution refunds for reimbursement-basis employers which were indicated in the Department's Benefit Funding System were not captured in the total amount of employer refunds at year-end. As a result, the payables for employer contribution refunds were understated by \$5.7 million, and associated revenues were overstated by the same amount.

The Department subsequently corrected the financial statements for the above adjustment.

Government Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions (Paragraph 16)*, states that revenues should be recognized, net of estimated refunds and estimated uncollectible accounts, in the same period that the assets are recognized, provided that the underlying exchange transaction has occurred.

In addition, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance obligations and costs are in compliance with applicable law. Good internal controls includes ensuring revenues are recorded net of refunds.

Department management stated unidentified payment transactions were not captured in the Department's Trust Fund General Ledger due to oversight. This misstatement was identified during the Department's conversion to a new tax revenue system and was adjusted accordingly.

Failure to properly account for employer refunds associated with employer contributions resulted in overstatement of revenues and understatement of liabilities in the financial statements. (Finding Code No. 2017-001)

Recommendation

We recommend the Department implement procedures to ensure reimbursable transactions and other unapplied credits are properly recorded in the Department's reporting system for proprietary funds to ensure the underlying records and financial statements are accurate.

Department Response

The Department agrees with the finding. On September 11, 2017, the Department implemented a new tax revenue system (GenTax). All receivables and payables are available and reconciled on the new system.

**State of Illinois
Department of Employment Security**

**Schedule of Prior Year Finding
For the Year Ended June 30, 2017**

Prior Finding Not Repeated – *Government Auditing Standards*

A. Inadequate Controls over Reporting

In the prior audit, the Illinois Department of Employment Security (Department) did not have adequate controls over financial reporting to ensure that the requirements of GASB Statements No. 72, *Fair Value Measurement and Application*, were implemented in Fiscal Year 2016.

Status: Not Repeated

In the current audit, the Department included all required GASB 72 disclosures, as well as any new standards that were applicable to Fiscal Year 2017. (Finding Code No. 2016-001)