

Audited Financial Statements

State of Michigan
Talent Investment Agency
Unemployment Insurance Agency –
Administration Fund

*Year Ended September 30, 2015
with Report of Independent Auditors*

State of Michigan
Talent Investment Agency
Unemployment Insurance Agency –
Administration Fund

Audited Financial Statements

Year Ended September 30, 2015

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Report of Independent Auditors

State of Michigan
Office of the Auditor General,
Office of Financial Management, and
Talent Investment Agency,
Unemployment Insurance Agency

Report on the Financial Statements

We have audited the accompanying financial statements of the Administration Fund of the State of Michigan Talent Investment Agency, Unemployment Insurance Agency (Fund) as of and for the year ended September 30, 2015, 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.

Auditors' 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 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of September 30, 2015, and the change in financial position thereof 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 1, the financial statements present only the Administration Fund of the State of Michigan Talent Investment Agency, Unemployment Insurance Agency and do not purport to, and do not, present fairly the financial position of the State of Michigan or the State of Michigan Talent Investment Agency, Unemployment Insurance Agency in its entirety as of September 30, 2015, or 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

Accounting principles generally accepted in the United States of America require that management's discussion and analysis be presented to supplement the financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted budget to actual comparison schedules 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2015, on our consideration of the Administration Fund of the State of Michigan Talent Investment Agency, Unemployment Insurance Agency'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 Administration Fund of the State of Michigan Talent Investment Agency, Unemployment Insurance Agency's internal control over financial reporting and compliance.

Andrews Hooper Paulik PLC

Auburn Hills, Michigan
December 4, 2015

State of Michigan
Talent Investment Agency
Unemployment Insurance Agency –
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Management’s Discussion and Analysis

Year Ended September 30, 2015

Our discussion and analysis of the Administration Fund of the State of Michigan Talent Investment Agency, Unemployment Insurance Agency’s (Fund) governmental fund financial performance provides an overview of the Fund’s activities for the year ended September 30, 2015.

The Fund was established as a Special Revenue fund of the State of Michigan under the provisions of the Michigan Employment Security Act of 1936 to account for the expenditures of administration of the Unemployment Compensation and Contingent funds of the State of Michigan Talent Investment Agency, Unemployment Insurance Agency. The accompanying financial statements present the results of operations for the Fund only. Accordingly, these financial statements do not present fairly the financial position or results of operations of the State of Michigan or the State of Michigan Talent Investment Agency, Unemployment Insurance Agency.

Financial Highlights

- All remaining ARRA funds were used in fiscal year 2014, resulting in \$13.7 million less in transfers in for fiscal year 2015. Federal revenues decreased \$4.9 million because of lower expenditures. The majority of the Modernization project ended in fiscal year 2014 so expenditures were down \$18.6 million overall.

Using this Annual Financial Report

The annual report includes this management’s discussion and analysis report, the independent auditors’ report, and the financial statements of the Fund. The financial statements also include notes that explain in more detail some of the information in the financial statements.

Reporting on the Fund

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Fund, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Fund’s financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting.

Notes to financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

State of Michigan
Talent Investment Agency
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Management’s Discussion and Analysis

Year Ended September 30, 2015

Financial Analysis of the Fund

Exhibit A provides the comparative summary of the Fund’s fund balance as of September 30, 2015 and 2014:

Exhibit A

	2015	2014
Assets		
Total assets (all current)	\$ 11,206,090	\$ 11,748,461
Liabilities		
Total liabilities (all current)	11,206,090	11,748,461
Fund Balance		
Total fund balance	\$ -	\$ -

The decrease of \$.5 million in both total assets and total liabilities was a result of the timing of expenditures and the draws to fund those expenditures.

The results of this year’s operations for the Fund are reported in the Statement of Revenues, Expenditures, and Changes in Fund Balance, as summarized in Exhibit B below, which shows the changes in fund balance for the years ended September 30, 2015 and 2014.

Exhibit B

	2015	2014
Revenues		
Federal	\$ 135,137,724	\$ 140,079,624
Miscellaneous	5,764	465
Total revenues	135,143,488	140,080,089
Expenditures		
Current – labor, commerce, and regulatory	134,784,050	153,403,431
Debt service – capital lease payments	596,101	582,753
Total expenditures	135,380,151	153,986,184
Other financing sources (uses)		
Capital lease acquisitions	74,910	-
Transfers in	1,770,291	15,507,719
Transfers out	(1,608,538)	(1,601,624)
Total other financing sources	236,663	13,906,095
Change in fund balance	\$ -	\$ -

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Management's Discussion and Analysis

Year Ended September 30, 2015

The decrease in total revenues by \$4.9 million was due to lower budgeted expenditures. The decrease in total expenditures of \$18.6 million was due to the majority of the Modernization project being completed in fiscal year 2014. This also decreased transfers in by \$13.7 million, due to no ARRA monies being used in fiscal year 2015.

Factors Expected to Have an Effect on Future Operations

Michigan's regular unemployment claims have been trending downward in recent years and are expected to decline again slightly in fiscal year 2016 causing no major impact to this fund.

State of Michigan
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Balance Sheet
September 30, 2015

Assets

Current assets:

Due from federal agencies	\$ 10,545,536
Due from State of Michigan funds	658,889
Miscellaneous receivables	<u>1,665</u>

Total assets	<u><u>\$ 11,206,090</u></u>
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Liabilities

Current liabilities:

Warrants outstanding	\$ 17,483
Accounts payable and accrued liabilities	3,357,840
Due to State of Michigan funds	7,799,784
Due to State of Michigan component units	<u>30,983</u>

Total liabilities	11,206,090
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Fund Balance

Fund balance – unassigned	<u>-</u>
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Total liabilities and fund balance	<u><u>\$ 11,206,090</u></u>
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State of Michigan
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Statement of Revenues, Expenditures, and Changes in Fund Balance

Year Ended September 30, 2015

Revenues:	
From federal agencies	\$ 135,137,724
Miscellaneous	<u>5,764</u>
Total revenues	135,143,488
Expenditures:	
Current – labor, commerce, and regulatory	134,784,050
Debt service – capital lease payments	<u>596,101</u>
Total expenditures	<u>135,380,151</u>
Excess of revenues over (under) expenditures	(236,663)
Other financing sources (uses):	
Capital lease acquisitions	74,910
Transfers in	1,770,291
Transfers out	<u>(1,608,538)</u>
Total other financing sources	<u>236,663</u>
Change in fund balance	-
Fund balance – beginning of year	<u>-</u>
Fund balance – end of year	<u><u>\$ -</u></u>

State of Michigan
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Notes to Financial Statements

September 30, 2015

1. General Activities and Significant Accounting Policies

The Administration Fund of the State of Michigan Talent Investment Agency, Unemployment Insurance Agency (Fund) was established under the provisions of the Michigan Employment Security Act of 1936. The financial statements of the Fund have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting.

The Fund is a Special Revenue fund which accounts for the expenditures of the administration of the Unemployment Compensation and Contingent funds of the State of Michigan Talent Investment Agency, Unemployment Insurance Agency. The Fund derives a substantial portion of its revenue from federal grants.

The Fund's financial statement amounts are included in the combined financial statements contained in the State of Michigan Comprehensive Annual Financial Report.

Budgetary Control

Appropriations and revenue estimates for the Fund are approved annually by the State of Michigan legislature. If revenues fall short of estimates, related spending authorizations are reduced. If revenues exceed the estimate, supplemental appropriations are required before they can be spent.

Budgetary control of spending is maintained at the appropriation line-item level, and appropriations lapse at the end of each fiscal year. There were no overexpenditures by the Fund during the fiscal year 2015.

Basis of Accounting

The Fund's financial statements 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. 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 Fund considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

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Notes to Financial Statements

September 30, 2015

1. General Activities and Significant Accounting Policies (continued)

Use of Estimates

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

Deferred Outflows and Inflows of Resources

In addition to assets, the balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The Fund has no items that qualify for reporting in this category.

In addition to liabilities, the balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Fund has no items that qualify for reporting in this category.

2. Transfers

The Fund records expenditures to and revenues from other State of Michigan agencies for services received and rendered as transfers, in accordance with accounting policies established by the State of Michigan.

3. Leases

The Fund leases various buildings under non-cancelable leasing arrangements which have been categorized as capital or operating leases.

Rental expenditures under operating and capital leases, which may include certain utilities depending upon the rental and site agreements, approximated \$2.1 million for the year ended September 30, 2015.

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Notes to Financial Statements

September 30, 2015

3. Leases (continued)

Capital and operating lease commitments, including principal, interest, and executory costs, are as follows as of September 30, 2015:

	<u>Capital leases</u>	<u>Operating leases</u>
Year ending September 30:		
2016	\$ 783,137	\$ 72,995
2017	688,693	-
2018	80,193	-
2019	28,149	-
2020	9,383	-

The capital assets and associated liabilities related with the Unemployment Insurance Agency capital leases are accounted for in the statewide financial statements contained in the State of Michigan Comprehensive Annual Financial Report.

4. Retirement Plans

Substantially all of the Fund’s employees are covered by a statewide defined benefit pension plan (Michigan State Employees’ Retirement System) established by the State of Michigan. The plan provides retirement benefits (including postemployment benefits of health, dental, and vision, as well as life insurance to all state employees who are not covered by other state retirement systems and were participants in the plan prior to March 31, 1997 (the date the plan closed to new participants with the exception of the postemployment benefits portion, which is open to all state retirees who participate in this plan or the below described defined contribution plan). Information regarding the plan’s net pension benefit obligation; net assets available for benefits; contribution requirements; funded ratio; actuarial valuation, methods, and assumptions; and number of participants is included in the State of Michigan Comprehensive Annual Financial Report or the separately issued Comprehensive Annual Financial Report of the plan. Separate information regarding the funded status of the plan for employees of the Fund is not available. Expenditures for the Fund for this plan for the year ended September 30, 2015 were approximately \$23.6 million.

Fund employees who are not covered by the above described defined benefit pension plan are covered by a defined contribution plan (State Employees’ Deferred Compensation Plan II) sponsored by the State of Michigan. Employees hired after March 31, 1997 become eligible on the first day of employment in this plan as long as they are not covered by other state retirement systems. The Fund provides for a mandatory contribution of 4% of each employee’s annual compensation to the plan. The Fund is also required to make matching contributions equal to elective deferrals to the plan, up to a maximum of 3% of each employee’s annual compensation.

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September 30, 2015

4. Retirement Plans (continued)

Employees are 100% vested in their salary deferrals at all times and are vested in employer contributions based on years of service over a four year period. Employees in this plan upon retirement are also eligible to receive postemployment benefits of health, dental and vision, as well as life insurance through the above described defined benefit pension plan. Expenditures for the Fund for this plan for the year ended September 30, 2015 were approximately \$2.3 million.

5. Compensated Absences

Employees accumulate annual leave (vacation) balances to a maximum ranging from 240 to 300 hours. They receive a 100% termination payment upon separation based upon their final rate of pay. Employee sick leave balances accumulate without limit. Termination payments are made only upon separation from State of Michigan service and only to employees hired prior to October 1, 1980. Payments at retirement or death are based on 50% of the employee's sick leave accumulation multiplied by the last rate of pay. When separating for any other reason, employees are paid a percentage of their unused sick leave, which increases from 0% to 50% depending upon the balance of their sick leave hours.

The Fund has accrued liabilities for compensated absences as required by the GASB. Annual leave is valued at 100% of the balance plus the Fund's share of Social Security and retirement contributions. Sick leave is valued, as explained above, at 0% to 50%, plus the Fund's share of Social Security contributions. The pay rates in effect as of September 30, 2015 are used. Liabilities are considered "due and payable" and recorded only for separations or transfers that occur before year-end and are paid with expendable, available resources.

6. Risk Management

The State of Michigan has established internal service funds to account for certain aspects of its risk management program. The Fund transfers money to these internal service funds to pay for coverage on these types of risks.

The State of Michigan does not carry commercial insurance for many of the risks of losses to which it is exposed. The State of Michigan is self-insured for most general liability and property losses, portions of its employee insurance benefit and employee bonding programs, automobile liability, workers' compensation, and unemployment compensation claims. The State of Michigan purchases some level of insurance coverage for portions of the state employee insurance benefits program, boiler and machinery coverage, and employee bonding. Information regarding current year claims and changes in estimates, claim payments, and amount of claims liability is included in the State of Michigan Comprehensive Annual Financial Report.

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Notes to Financial Statements

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7. Contingencies

The Fund is involved in various claims and legal actions and participates in a number of federal financial assistance programs, which could lead to a request for reimbursement from the federal grantor agencies for disallowed expenditures. Although it is not possible to predict the outcome of these matters, in the opinion of management, their ultimate disposition will not have a material effect on the financial position of the Fund.

8. New Pronouncement

During the year ended September 30, 2015, the Fund adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. Statement No. 71 is a clarification to Statement No. 68 requiring governments to recognize a beginning deferred outflow of resources for pension contributions made subsequent to the measurement date of the beginning net pension obligation. The adoption of these standards did not have an impact to the Fund.