

Audited Financial Statements

State of Michigan
Department of Talent and Economic Development
Talent Investment Agency –
Unemployment Administration Fund

*Year Ended September 30, 2017
with Report of Independent Auditors*

State of Michigan
Department of Talent and Economic Development
Talent Investment Agency –
Unemployment Administration Fund

Audited Financial Statements

Year Ended September 30, 2017

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Report of Independent Auditors

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

Report on the Financial Statements

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

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, 2017, 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 Unemployment Administration Fund of the State of Michigan Talent Investment 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 in its entirety as of September 30, 2017, 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 8, 2017, on our consideration of the Unemployment Administration Fund of the State of Michigan Talent Investment 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 Unemployment Administration Fund of the State of Michigan Talent Investment Agency's internal control over financial reporting and compliance.

Andrews Hooper Pavlik PLC

Auburn Hills, Michigan
December 8, 2017

State of Michigan
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Management’s Discussion and Analysis

Year Ended September 30, 2017

Our discussion and analysis of the Unemployment Administration Fund (Fund) of the State of Michigan Talent Investment Agency’s governmental fund financial performance provides an overview of the Fund’s activities for the year ended September 30, 2017.

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. 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.

Financial Highlights

The Fund has been controlling expenditures, which caused a decrease of \$2.8 million in Federal Grant Revenue because revenue is earned on a cost reimbursement basis. The Skilled Trades Training Program accounted for \$19 million in expenditures, which are reflected as transfers in on a cost reimbursement basis from the State of Michigan Talent Investment Agency– Unemployment Contingent Fund.

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.

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Management’s Discussion and Analysis

Year Ended September 30, 2017

Financial Analysis of the Fund

Exhibit A provides the comparative summary of the Fund’s fund balance as of September 30, 2017 and 2016:

Exhibit A

	2017	2016
Assets		
Total assets (all current)	\$ 12,820,403	\$ 27,315,313
Liabilities		
Total liabilities (all current)	12,820,403	27,315,313
Fund Balance		
Total fund balance	\$ -	\$ -

The decrease of \$14.5 million in both total assets and total liabilities was a result of the timing of expenditures and the draws to fund those expenditures. Payments of MAHS (Michigan Administrative Hearings System) were made quarterly this year instead of a lump sum payment at the end of the year in fiscal year 2016. Department of Management and Budget Information Technology billings were also made in a more timely fashion.

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, 2017 and 2016.

Exhibit B

	2017	2016
Revenues		
Federal	\$ 121,484,614	\$ 124,266,026
Miscellaneous	270	12,527
Total revenues	121,484,884	124,278,553
Expenditures		
Current – labor, commerce, and regulatory	141,567,144	136,941,180
Debt service – capital lease payments	870,140	687,669
Total expenditures	142,437,284	137,628,849
Other financing sources (uses)		
Capital lease acquisitions	1,160,000	2,415,000
Transfers in	21,088,997	12,345,486
Transfers out	(1,296,597)	(1,410,190)
Total other financing sources	20,952,400	13,350,296
Change in fund balance	\$ -	\$ -

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Management's Discussion and Analysis

Year Ended September 30, 2017

Financial Analysis of the Fund (continued)

Overall the Unemployment Administration Fund decreased federal spending by \$2.8 million. The increase in transfers in was due to the Skilled Trades Training Program being funded by the Contingent Fund of the State of Michigan Talent Investment Agency.

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 stay stable in fiscal year 2018 causing no major impact to this fund. Due to the low unemployment claims additional federal money received above the base award will be minimal.

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Balance Sheet

September 30, 2017

Assets

Current assets:

Due from federal agencies	\$ 12,438,961
Due from State of Michigan funds	375,028
Miscellaneous receivables	6,414
Total assets	<u>\$ 12,820,403</u>

Liabilities

Current liabilities:

Warrants outstanding	\$ 233,707
Accounts payable and accrued liabilities	5,970,776
Due to State of Michigan funds	6,584,271
Due to State of Michigan component units	31,649
Total liabilities	<u>12,820,403</u>

Fund Balance

Fund balance – unassigned	-
Total liabilities and fund balance	<u>\$ 12,820,403</u>

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Statement of Revenues, Expenditures, and Changes in Fund Balance

Year Ended September 30, 2017

Revenues:	
From federal agencies	\$ 121,484,614
Miscellaneous	270
Total revenues	121,484,884
Expenditures:	
Current – labor, commerce, and regulatory	141,567,144
Debt service – capital lease payments	870,140
Total expenditures	142,437,284
Excess of revenues over (under) expenditures	(20,952,400)
Other financing sources (uses):	
Capital lease acquisitions	1,160,000
Transfers in	21,088,997
Transfers out	(1,296,597)
Total other financing sources	20,952,400
Change in fund balance	-
Fund balance – beginning of year	-
Fund balance – end of year	\$ -

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Notes to Financial Statements

September 30, 2017

1. General Activities and Significant Accounting Policies

The Unemployment Administration Fund (Fund) of the State of Michigan Talent Investment Agency 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. 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 2017.

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, 2017

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 the current year.

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 in the current year.

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, 2017.

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Notes to Financial Statements

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3. Leases (continued)

Capital and operating lease commitments, including principal, interest, and executory costs, are as follows as of September 30, 2017:

	Capital leases	Operating leases
Year ending September 30:		
2018	\$ 799,115	\$ -
2019	1,095,649	-
2020	1,076,883	-
2021	1,083,750	-
2022	1,072,667	-
2023-2027	1,886,624	-

The capital assets and associated liabilities related with the Fund 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). The Michigan State Employees’ Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit plan. That report is available on the State of Michigan’s website at <http://www.michigan.gov/ors>. 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. Expenditures for the Fund for this plan for the year ended September 30, 2017 were approximately \$9 million.

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4. Retirement Plans (continued)

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 financial report for the defined contribution plan may be obtained by writing to the Department of Technology, Management and Budget, Office of Retirement Services, 530 West Allegan St., Lansing, MI, 48933-1524 or by calling (517) 322-5103. 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. 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. Expenditures for the Fund for this plan for the year ended September 30, 2017 were approximately \$1.9 million.

The Fund participates in the State of Michigan's postemployment benefit plan. State statutes provide retired employees with other postemployment benefits, such as health, dental, vision, and life insurance coverage based on vesting and other requirements. The State pays 80% of the cost of health insurance for retired employees that were hired on or before March 30, 1997. For retired employees hired after March 30, 1997 and before January 1, 2012, the State pays between 30% and 80% of the cost of health insurance depending on the years of service. Employees hired on or after January 1, 2012 will not be eligible for any retiree health insurance coverage but will become a participant in the Personal Healthcare Fund where they will contribute up to 2% of their compensation into a 401(k) or 457 account, earning a matching 2% employer contribution. Also, the employee will receive a credit into a health reimbursement account at termination of employment if he or she has at least 10 years of service at termination. The credit will be \$2,000 for participants who are at least 60 years old or \$1,000 for participants who are less than 60 years old at termination. Expenditures for the Fund for this plan for the year ended September 30, 2017 were approximately \$8.2 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.

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5. Compensated Absences (continued)

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, 2017 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 elected not to purchase 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, and workers' compensation and unemployment compensation claims. Areas of risk where some level of insurance coverage is purchased include: aircraft liability, property and loss rental insurance that may be required by bond or lease agreements, portions of the State employee insurance benefits program, certain State artifacts, builder's risk coverage, boiler and machinery coverage, and employee bonding. Settled claims have not exceeded commercial coverage in any of the past ten fiscal years.

The State of Michigan has established two internal service funds to account for certain aspects of the risk management program. Fund expenditures (expenses) are recognized in the paying funds in a manner similar to purchased commercial insurance. For other uninsured losses not covered by an internal service fund program, such as general liability and property losses, the Fund recognizes liabilities and records expenditures when a loss is due and payable.

For unemployment claims, the Unemployment Compensation Fund of the State of Michigan Talent Investment Agency bills the State of Michigan for the actual amount of claims paid to former State employees. The State of Michigan accrues liabilities in the governmental fund financial statements for unemployment compensation, only to the extent paid by the Unemployment Compensation Fund through September 30.

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.