STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
TEACHER HEALTH INSURANCE SECURITY FUND

FINANCIAL AUDIT

For the Year Ended June 30, 2014

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

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
TEACHER HEALTH INSURANCE SECURITY FUND

FINANCIAL AUDIT

For the Year Ended June 30, 2014

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STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
TEACHER HEALTH INSURANCE SECURITY FUND

FINANCIAL AUDIT

AGENCY OFFICIALS

Director	Mr. Malcolm Weems (Effective June 16, 2011 through October 4, 2013)
	Ms. Simone McNeil - Acting (Effective October 5, 2013 through January 12, 2015)
	Ms. Ngozi Okorafor - Acting (Effective January 13, 2015)
Assistant Director	Mr. Israel Salazar - Acting (Effective March 18, 2013 through March 19, 2014)
	Mr. Israel Salazar (Effective March 20, 2014)
Chief Administrative Officer	Mr. Roger Nondorf (Through September 30, 2014)
Chief Operating Officer	Mr. Chima Enyia (Through November 27, 2013)
Chief Fiscal Officer	Mr. Paul Romiti (Through November 30, 2013)
	Ms. Karen Pape – Acting (Effective December 1, 2013 through February 13, 2014)
	Mr. Chuck Morris (Effective February 14, 2014)
General Counsel	Mr. Kevin Connor (Through November 27, 2013)
	Mr. Jeff Shuck – Acting (Effective December 1, 2013 through December 15, 2013)
	Mr. Thomas Mikrut (Effective December 16, 2013)

AGENCY OFFICALS (Continued)

Chief Internal Auditor	Ms. Deborah Abbott

AGENCY OFFICE LOCATION

715 Stratton Office Building
401 South Spring Street
Springfield, IL 62706

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
TEACHER HEALTH INSURANCE SECURITY FUND

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying financial statements of the State of Illinois, Department of Central Management Services' Teacher Health Insurance Security Fund, was performed by Sikich LLP as Special.

Based on their audit, the auditors expressed an unmodified opinion on the Teacher Health Insurance Security Fund's financial statements.

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217.793.3363 // www.sikich.com

3201 W. White Oaks Dr., Suite 102
Springfield, Illinois 62704

Certified Public Accountants & Advisors
Members of American Institute of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Honorable William G. Holland
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 Teacher Health Insurance Security Fund of the State of Illinois, Department of Central Management Services, as of and for the year ended June 30, 2014, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 Teacher Health Insurance Security Fund of the State of Illinois, Department of Central Management Services, as of June 30, 2014, and the changes 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 2, the financial statements present only the Teacher Health Insurance Security Fund of the State of Illinois, Department of Central Management Service, and do not purport to, and do not, present fairly the financial position of the State of Illinois or the State of Illinois, Department of Central Management Services as of June 30, 2014, and the changes in its financial position 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.

As discussed in Note 9 to the financial statements, the Teacher Health Insurance Security Fund experienced a net shortfall of approximately $7.416 million for the year ended June 30, 2014 and has a deficit net position of $87,555 million as of June 30, 2014. Adverse experience is not covered by the current funding policy. Our opinion is not modified with respect to that matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of Funding Progress and Schedule of Contributions from Employers and Other Contributing Entities on pages 17-18 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 management's discussion and analysis for the Teacher Health Insurance Security Fund that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by the missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated January 13, 2015 on our consideration of the Teacher Health Insurance Security Fund of the State of Illinois, Department of Central Management Services' internal control over financial reporting of the Teacher Health Insurance Security Fund 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 the 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 State of Illinois, Department of Central Management Services' internal control over financial reporting of the Teacher Health Insurance Security Fund and its compliance.

Sikich LLP

Springfield, Illinois
January 13, 2015

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
TEACHER HEALTH INSURANCE SECURITY FUND
STATEMENT OF PLAN NET POSITION
June 30, 2014

(amounts expressed in thousands)

Assets	
Cash equity with State Treasurer	$ 46,813
Cash and Cash Equivalents	11,756
Securities lending collateral of State Treasurer	17,155
Receivables	
Employer	4,475
Employee	6,029
Federal government	374
Interest	13
Other receivables	8,438
Total receivables	19,329
	95,053
Total assets	
Liabilities	
Accounts payable and other	165,193
Intergovernmental payables	179
Obligations under security lending of State Treasurer	17,155
Compensated absences, current	5
Total current liabilities	182,532
Long-term compensated absences	76
Total liabilities	182,608
Net position held in trust for other postemployment benefits	$ (87,555)

The accompanying notes to the financial statements are an integral part of this statement.

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
TEACHER HEALTH INSURANCE SECURITY FUND
STATEMENT OF CHANGES IN PLAN NET POSITION
For the Year Ended June 30, 2014

(amounts expressed in thousands)

Additions		
Contributions		
Employer	$	77,290
State		90,430
Plan member:		
Actives		104,400
Retirees		157,234
Federal government Medicare Part D		16,360
Consolidated Ominbus Budget Reconciliation Act (COBRA)		133
Total contributions		445,847
Interest income		152
Total additions		445,999
Deductions		
Benefit payments and refunds		434,088
General and administrative expense		19,327
Total deductions		453,415
Net additions (deductions)		(7,416)
Net position held in trust for other postemployment benefits		
Beginning of year		(80,139)
End of year	$	(87,555)

The accompanying notes to the financial statements are an integral part of this statement.

1) Organization

The Teacher Health Insurance Security Fund (THISF) (also known as The Teacher Retirement Insurance Program, "TRIP") is a non-appropriated trust fund held outside the State Treasury, with the State Treasurer as custodian. Revenues deposited into the Trust are for the sole purpose of providing the health benefits to retirees, as established under the plan, and associated administrative costs. TRIP is a cost-sharing multiple-employer defined benefit post-employment healthcare plan that covers retired employees of participating school districts throughout the State of Illinois, excluding the Chicago Public School System. TRIP health coverage includes provisions for medical, prescription, and behavioral health benefits, but does not provide vision, dental, or life insurance benefits. Annuitants may participate in the State administered Preferred Provider Organization plan or choose from several managed care options. The State Employees Group Insurance Act of 1971 (5 ILCS 375/6.5) establishes the eligibility and benefit provisions for the plan. As a result of the Governor's Executive Order 12-01, the responsibilities in relation to TRIP were transferred to the Department of Central Management Services (Department) as of July 1, 2013. The Department administers the plan with the cooperation of the Teachers' Retirement System (TRS).

In order to be eligible, retirees of public schools must have been certified educators or administrators during their time of employment. Eligibility to participate in the plan is currently limited to former full-time employees, or if not a full-time employee, an individual that is in a permanent and continuous basis in a position in which services are expected to be rendered for at least one school term, and their dependents.

2) Summary of Significant Accounting Policies

a) Financial Reporting Entity

As defined by Generally Accepted Accounting Principles (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. Financial accountability is defined as:

1) Appointment of a voting majority of the component unit's board and either (a) the primary government's ability to impose its will, or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or

2) Fiscal dependence on the primary government and the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government.

Based upon the required criteria, the THISF has no component units and is not a component unit of any other entity. However, because the THISF is not legally separate from the State of Illinois, the financial statements of the THISF are included in the financial statements of the State of Illinois as a pension (and other employee benefit) trust fund. The State of Illinois' Comprehensive Annual Financial Report may be obtained by writing to the State Comptroller's Office, Division of Financial Reporting, 325 West Adams Street, Springfield, Illinois, 62704-1871.

b) Basis of Presentation

The financial statements present only the THISF administered by the State of Illinois, Department of Central Management Services. They are intended to present the financial position and the changes in financial position of only the THISF. They do not purport to, and do not, present fairly the financial position of the State of Illinois or the Department as of June 30, 2014, and the changes in financial position for the year ended in conformity with accounting principles generally accepted in the United States of America.

c) Measurement Focus and Basis of Accounting

THISF's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

d) Cash and Cash Equivalents

Cash equivalents are defined as short-term, highly liquid investments readily convertible to cash with maturities of less than 90 days at the time of purchase. Cash and cash equivalents include cash on hand and cash in banks for locally held funds.

e) Deposits and Investments

The investments are reported at fair value.

f) Compensated Absences

The liability for compensated absences reported in the statement of plan net assets consists of unpaid, accumulated vacation and sick leave balances for Department employees. The liability has been calculated using the vesting method in which leave amounts, for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination, are included. The liability has been calculated based on the employees' current salary level and includes salary related costs (e.g., Social Security and Medicare tax).

Legislation that became effective January 1, 1998, capped the paid sick leave for all State Employees' Retirement System members at December 31, 1997. Employees continue to accrue twelve sick days per year, but will not receive monetary compensation for any additional time earned after December 31, 1997. Sick days earned between 1984 and December 31, 1997, (with a 50% cash value) would only be used after all days with no cash value are depleted. Any sick days earned and unused after December 31, 1997, will be converted to service time for purposes of calculating employee pension benefits.

g) Use of Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and to disclose 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.

3) Contribution Information

Membership of the plan consisted of the following at June 30, 2014:

Retirees and beneficiaries receiving benefits	72,991
Waived retirees who may elect healthcare coverage in the future	17,689
Terminated plan members entitled to but not yet receiving benefits thru TRIP	9,551
Terminated plan members entitled to but not yet receiving benefits thru other TRS plans	5,961
Active plan members	155,168
Total	261,360
Number of participating employers	995

The State Employees Group Insurance Act of 1971 (5 ILCS 375/6.6) requires that all active contributors of the TRS, who are not employees of a department, make contributions to the plan at a rate of .97% of salary and for every employer of a teacher to contribute an amount equal to .72% of each teacher's salary. The Department determines, by rule, the percentage required, which each year shall not exceed 105% of the percentage of salary actually required to be paid in the previous fiscal year.

The State Employees Group Insurance Act of 1971 (5 ILCS 375/6.5) requires that the Department's Director determine the rates and premiums of annuitants and dependent beneficiaries and establish the cost-sharing parameters, as well as funding. Member premiums are set by this statute, which provides for a subsidy of either 50% or 75%, depending upon member benefit choices. Dependents are eligible for coverage, at a rate of 100% of the cost of coverage.

For the year ended June 30, 2014, member annuitants (including their dependent beneficiaries) contributed $157.234 million, or approximately 36.62% of total premiums, through their required contributions. Member required contributions ranged from $80.23 to $208.87, per month per retiree, and from $358.15 to $626.64, per month per retiree and spouse (assuming Medicare eligibility). For non-Medicare eligible members, required contributions ranged from $65.36 to $719.96, per month per retiree, and from $326.87 to $2,159.86, per month per retiree plus dependents. The State Employees Group Insurance Act of 1971 (5 ILCS 375/6.6) requires active teachers contribute .97% of salaries; they contributed $104.400 million, or approximately 24.32% of total premiums. The State Employees Group Insurance Act of 1971 (5 ILCS 375/6.6) also requires participating school districts contribute .72% of salaries; they contributed $77.290 million, or approximately 18% of total premiums. In addition, the State Employees Group Insurance Act of 1971 (5 ILCS 375/6.6) requires the State contribute .97% of salaries; they contributed $90.430 million, or approximately 21.06% of total premiums. The fund received $16.360 million in Medicare Part D subsidy payments from the federal government.

4) Deposits and Investments

a) Deposits

The State Treasurer is the custodian of the State's cash and cash equivalents for funds maintained in the State Treasury. Deposits in the custody of the State Treasurer are pooled and invested with other State funds in accordance with the Deposit of State Moneys Act of the Illinois Compiled Statutes (15 ILCS 520/11). Funds held by the State Treasurer have not been categorized as to credit risk because the Department does not own individual securities. Detail on the nature of these deposits and investments are available within the State of Illinois' Comprehensive Annual Financial Report.

Cash on deposit with the State Treasurer totaled $46.813 million at June 30, 2014.

b) Investments

Section 2 of the Public Funds Investment Act limits the State's investments outside the State Treasury to securities of the U.S. government or its agencies, short-term obligations of domestic corporations exceeding $500 million in assets that are rated in the three highest categories by at least two nationally recognized statistical ratings organizations not to exceed ten percent of the domestic corporations outstanding obligations, money market mutual funds invested in the U.S. government and/or its agencies, and repurchase agreements securities of the U.S. government or its agencies or money market mutual funds invested in the U.S. government or its agencies. Investments of public funds in a Public Treasurers' Investment Pool created under Section 17 of the State Treasurer Act are also permitted.

As of June 30, 2014, the Department had the following investments in the State Treasury Investment Pool (Illinois Funds):

	Fair Value (Thousands)	Weighted Average Maturity (Years)
Illinois Public Treasurers' Investment Pool	$11,756	0.090%
Total fixed income investments	$11,756	

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Department does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Department does not have a formal investment policy that limits investment choices. Investments in the Illinois Public Treasurers' Investment Pool were rated AAAm by Standard & Poor's.

c) Reconciliation to Statement of Net Position

	Deposits (Thousands)	Investments (Thousands)
Amounts per Note 4(a)(b)	$46,813	$11,756
Cash Equivalents	11,756	(11,756)
Total per Statement of Net Position	$58,569	$ 0

d) Securities Lending Transactions

The State Treasurer lends securities to broker-dealers and other entities for collateral that will be returned for the same securities in the future. The State Treasurer has, through a Securities Lending Agreement, authorized Deutsche Bank Group to lend the State Treasurer's securities to broker-dealers and banks pursuant to a form of loan agreement.

During fiscal year 2014 and 2013, Deutsche Bank Group lent U.S. Treasury and U.S. agency securities and received as collateral U.S. dollar denominated cash. Borrowers were required to deliver collateral for each loan equal to at least 100% of the aggregated market value of the loaned securities. Loans are marked to market daily. If the market value of collateral falls below 100%, the borrower must provide additional collateral to raise the market value to 100%.

The State Treasurer did not impose any restrictions during fiscal year 2013 on the amount of the loans available or the eligible securities. In the event of borrower default, Deutsche Bank Group provides the State Treasurer with counterparty default indemnification. In addition, Deutsche Bank Group is obligated to indemnify the State Treasurer if the Deutsche Bank Group loses any securities, collateral or investments of the State Treasurer in Deutsche Bank Group's custody. Moreover, there were no losses during fiscal year 2013 resulting from a default of the borrowers or Deutsche Bank Group.

During fiscal year 2014 and 2013, the State Treasurer and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in repurchase agreements with approved counterparties collateralized with securities approved by the Deutsche Bank Group and marked to market daily at no less than 102%. Because the loans are terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. The State Treasurer had no credit risk as a result of its securities lending program as the collateral held exceeded the fair value of the securities lent. The securities lending collateral invested in repurchase agreements and the fair value of securities on loan for the State Treasurer as of June 30, 2014 were $5,758.77 million and $5,727.66 million, respectively.

In accordance with GASB Statement No. 28, paragraph 9, the Office of the State Treasurer has allocated the assets and obligations at June 30, 2014 arising from securities lending agreements to the various funds of the state. The total allocated to the THISF at June 30, 2014 was $17.155 million.

5) Status and Funding Progress – OPEB Plans

The funded status of the plan as of the most recent actuarial valuation date available as of June 30, 2013 is as follows (amounts expressed in thousands):

Actuarial Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)-- Projected Unit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
6/30/13	$(80,139)	$19,459,607	$19,539,746	-0.41%	$9,110,415	214.48%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time, relative to the actuarial accrued liabilities for benefits.

The accompanying Schedule of Contributions from Employers and Other Contributing Entities presents trend information about the amounts contributed to the plan by employers in comparison to the Annual Required Contribution (ARC), an amount that is actuarially determined in accordance with the parameters of GASB Statement 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Additional information as of the latest actuarial valuation follows:

Valuation date	6/30/13
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percentage of Pay
Remaining Amortization Period	30 Years
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Inflation Rate	3.0%
Amortization Period	Open
Investment Rate of Return*	4.5 %
Healthcare Cost Trend Rate	8.5% grading down .5% per year over 5 years to 6% and in the 6th year grading down .4% to 5.6% Initial 5% Ultimate

* Determined as a blended rate of the expected long-term investment returns on plan assets based upon the funded level of the plan as of the valuation date.

6) Long-Term Obligations

Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2014, were as follows:

	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2013	Amounts Due Within One Year
Compensated Absences	$104	$48	$71	$81	$5
Total	$104	$48	$71	$81	$5

7) Pension Plan

The vested full-time employees paid from the THISF may participate in the State Employees' Retirement System (SERS), which is a pension trust fund in the State of Illinois reporting entity. The SERS is a single-employer defined benefit public employee retirement system (PERS) in which State employees participate, except those covered by the State Universities, Teachers', General Assembly, and Judges' Retirement Systems. The financial position and results of operations of the SERS for fiscal year 2014 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2014. The SERS issues a separate CAFR that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois, 62794-9255.

A summary of SERS benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the SERS' CAFR. Also included is a discussion of employer and employee obligations to contribute and the authority under which those obligations are established.

The Department pays employer retirement contributions based upon an actuarially determined percentage of their payrolls. For fiscal year 2014, the employer contribution rate was 40.312%. Effective for pay periods beginning after December 31, 1991, the State opted to pay the employee portion of retirement for most State agencies (including the Department) with employees covered by the State Employees' and Teachers' Retirement Systems. However, effective with the fiscal year 2004 budget, the State opted to stop paying the portion or a part of the portion of retirement for many State agencies (including the Department) for certain classes of employees covered by the State Employees' and Teachers' Retirement Systems. The pickup, when applicable, is subject to sufficient annual appropriations and those employees covered may vary across employee groups and State agencies.

8) Post-employment Benefits

The State provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by the Department. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health, dental, and vision benefits include basic benefits for annuitants and dependents under the State's self-insurance plan and insurance contracts currently in force. Annuitants may be required to contribute towards health, dental, and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the State Employees

Retirement System do not contribute towards health, dental, and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health, dental, and vision benefits. Annuitants also receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefit becomes $5,000.

However, Public Act 97-0695, effective, July 1, 2012, alters the contributions to be paid by the State, annuitants, survivors, and retired employees under the State Employees Group Insurance Act. This Act requires the Director of the Department to, on an annual basis, determine the amount that the State should contribute. The remainder of the cost of coverage shall be the responsibility of the annuitant, survivor, or retired employee. These costs will be assessed beginning July 1, 2013.

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

A summary of post-employment benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the financial statements of the Department of Central Management Services. A copy of the financial statements of the Department may be obtained by writing to the Department of Central Management Services, 401 South Spring, Springfield, Illinois, 62706.

9) Fund Deficit

For the fiscal year ending June 30, 2014, total benefits and expenses were $453.415 million which were partially financed by $90.430 million in State contributions, $77.290 million in employer contributions, $16.360 million in the federal government Medicare Part D subsidy, $104.400 million in active member contributions, and $157.234 million in retired member contributions, resulting in a net shortfall of approximately $7.416 million or approximately 2% of total benefits and expenses.

Because contributions made by the State, employers, employees, and retired members are defined as a fixed percentage of payroll, the funding policy does not provide a provision for adverse experience. The following factor contributed to the fund deficit: the current financing policy does not provide a specific provision for claims incurred during the fiscal year that are expected to be paid in the following fiscal year.

10) Commitments and Contingencies

The Department is a party to numerous legal proceedings, many of which normally occur in the course of operations. These proceedings are not, in the opinion of the Department's legal counsel, likely to have a material adverse impact on the Department's financial position. In the event a material action is settled against the Department, such amounts would be paid from future appropriations or by another State agency. Accordingly, no amounts have been provided in the accompanying financial statements related to outstanding litigation.

REQUIRED SUPPLEMENTARY INFORMATION

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
TEACHER HEALTH INSURANCE SECURITY FUND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
(amounts expressed in thousands)
(Unaudited)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)-- Projected Unit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
6/30/2007	$ 65,790	$ 14,284,678	$ 14,218,888	0.46%	$ 7,785,458	182.63%
6/30/2009	$ 54,603	$ 14,931,396	$ 14,876,793	0.37%	$ 8,428,359	176.51%
6/30/2011	$ 7,125	$ 18,860,375	$ 18,853,250	0.04%	$ 8,791,038	214.46%
6/30/2013	$ (80,139)	$ 19,459,607	$ 19,539,746	-0.41%	$ 9,110,415	214.48%

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
TEACHER HEALTH INSURANCE SECURITY FUND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS FROM EMPLOYERS
AND OTHER CONTRIBUTING ENTITIES
(amounts expressed in thousands)
(Unaudited)

Year Ended June 30	Annual Required Contribution	State Contributions	State Percentage Contributed	Employer's Contributions	Employer's Percentage Contributed	Medicare Part D Contributions	Medicare Part D Percentage Contributed
2009	$ 1,145,505	$ 75,474	6.59%	$ 66,312	5.79%	$ 22,285	1.95%
2010	$ 1,197,052	$ 79,007	6.60%	$ 67,706	5.66%	$ 23,897	2.00%
2011	$ 1,540,322	$ 85,953	5.58%	$ 70,570	4.58%	$ 23,422	1.52%
2012	$ 1,609,637	$ 87,622	5.44%	$ 71,376	4.43%	$ 24,911	1.55%
2013	$ 1,513,939	$ 86,683	5.73%	$ 74,023	4.89%	$ 23,958	1.58%
2014	$ 1,445,469	$ 90,430	6.26%	$ 77,290	5.35%	$ 16,360	1.13%

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217.793.3363 // www.sikich.com

3201 W. White Oaks Dr., Suite 102
Springfield, Illinois 62704

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable William G. Holland
Auditor General
State of Illinois

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 Teacher Health Insurance Security Fund of the State of Illinois, Department of Central Management Services, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Teacher Health Insurance Security Fund of the State of Illinois, Department of Central Management Services' financial statements, and have issued our report thereon dated January 13, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the State of Illinois, Department of Central Management Services' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State of Illinois, Department of Central Management Services' internal control. Accordingly, we do not express an opinion on the effectiveness of the State of Illinois, Department of Central Management Services' 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. Given these limitations, during our audit we did not identify any deficiencies in internal control of the Teacher health Insurance Security Fund that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Teacher Health Insurance Security Fund of the State of Illinois, Department of Central Management Services' 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Sikich LLP

Springfield, Illinois
January 13, 2015

CURRENT FINDINGS – *GOVERNMENT AUDITING STANDARDS*

FOR THE YEAR ENDED JUNE 30, 2014

None

PRIOR FINDINGS NOT REPEATED

A **FINDING**: (Weaknesses in internal control over financial reporting)

During the prior audit, we noted the Department conducted an inadequate review of the independent actuarial valuation report for unpaid claims liabilities to evaluate the overall reasonableness of the Department's calculation of unpaid claims liabilities at June 30, 2013. In addition, the lack of an adequate evaluation conducted by the Department led to delays in obtaining a timely resolution as to whether the Department's calculation of unpaid claims liabilities for health insurance claims appeared reasonably stated as of June 30, 2013.

Further, Department personnel in the Office of Finance and Management received a memorandum from the Comptroller dated November 4, 2013 noting the following financial information relating to the Teacher Health Insurance Security Fund was requested and not received as of the October 31, 2013 due date:

- Teachers' Retirement Insurance Plan of the State of Illinois – GASB No. 45 Actuarial Valuation Report as of June 30, 2013.
- Footnote disclosure and/or supplementary information relating to actuarially calculated amounts for the above listed health insurance plan.

For the current audit, the Department determined its calculation of unpaid claims liabilities at June 30, 2014 fell within a range of reasonable estimates provided by an independent actuary. Under GASB No. 45, actuarial valuation reports are required at least biennially; therefore, the Department was not required to obtain an updated actuarial valuation report as of June 30, 2014. Footnote disclosure and supplementary information relating to actuarially calculated amounts were reported timely. (Finding Code No. 2013-001)