ILLINOIS STATE EMPLOYEES' DEFERRED COMPENSATION PLAN

FINANCIAL AUDIT

For the Years Ended December 31, 2019 and 2018

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

SIKICH.COM

STATE OF ILLINOIS
EMPLOYEES' DEFERRED COMPENSATION PLAN
FINANCIAL AUDIT
For the Year Ended December 31, 2019

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STATE OF ILLINOIS
EMPLOYEES' DEFERRED COMPENSATION PLAN
FINANCIAL AUDIT
For the Two Years Ended December 31, 2019

AGENCY OFFICIALS

Director	Janel Forde (2/28/20 – present) Janel Forde, Acting (1/20/19 – 2/27/20) Sarah Kerley, Acting (1/4/19 – 1/20/19) Tim McDevitt, Acting (3/2/18 – 1/4/19)
Assistant Directors	Michael Merchant, Acting (7/15/19-present) Vacant (3/23/19-7/14/19) Ben Jones, Acting (6/22/18– 3/22/19) Sarah Kerley, Acting (2/1/18 – 1/4/19)
Chief Administrative Officer	Mark Mahoney (4/15/19 – present) Vacant (through 4/9/19)
Chief Operating Officer	Aysegul Kalaycioglu (4/18/19 - present) Vacant (2/1/19 – 4/17/19) Ngozi Okorafor (8/1/18 – 1/31/19)
Chief Fiscal Officer	Karen Pape, Acting (4/16/19 – present) Mark Lewis (7/1/17 – 4/15/19)
General Counsel	Terrence Glavin (7/22/19 – present) Vacant (1/1/19 – 7/21/19)
Chief Internal Auditor	Jack Rakers (5/15/18 – present)
Deputy Director – Bureau of Benefits	Shiloah Tubbs (7/1/2020 – present) Vacant (2/13/20 – 6/30/2020) Teresa Flesch (through 2/12/20)
Division Manager	Chris Colantino, Interim (1/23/20 – present) Vacant (1/1/20 – 1/22/20) Jason Musgrave (1999 – 12/31/19)
Division Fiscal Officer	Katie Zeter (11/1/19 – present) Vacant (1/1/19 – 10/31/19) Chris Schofield (1/1/01 – 12/31/18)

AGENCY OFFICES

The Illinois State Employees' Deferred Compensation Plan's primary administrative offices are located at:

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

FINANCIAL STATEMENT REPORT

SUMMARY

The audits of the accompanying financial statements of the State of Illinois, Department of Central Management Services, State Employees' Deferred Compensation Plan Fund (755) (Plan) as of and for December 31, 2019 and 2018, were performed by Sikich LLP as Special Assistant Auditors to the Auditor General, State of Illinois.

Based on their audits, the auditors expressed an unmodified opinion on the Plan's basic financial statements.

FINDINGS

None.

EXIT CONFERENCE

Plan management declined an exit conference in correspondence dated September 9, 2020.

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Springfield, IL 62704
217.793.3363

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INDEPENDENT AUDITOR'S REPORT

Honorable Frank J. Mautino
Auditor General
State of Illinois

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the State Employees' Deferred Compensation Plan Fund (755) of the State of Illinois, Department of Central Management Services, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements which comprise the basic 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 audits. We conducted our audits 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 audits 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 plan net position of the State Employees' Deferred Compensation Plan Fund (755) of the State of Illinois, Department of Central Management Services, as of December 31, 2019 and 2018, 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 1, the financial statements present only the State Employees' Deferred Compensation Plan Fund (755), a fund of the State of Illinois, Department of Central Management Services, 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 December 31, 2019 and 2018 and the changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management of the State of Illinois, Department of Central Management Services has omitted the management's discussion and analysis for the State Employees' Deferred Compensation Plan Fund (755) that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the State Employees' Deferred Compensation Plan Fund (755) of the State of Illinois, Department of Central Management Services' financial statements.

The accompanying supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in our audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 1, 2020 on our consideration of the State of Illinois, Department of Central Management Services' internal control over financial reporting of the State Employees' Deferred Compensation Plan Fund (755) and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State of Illinois, Department of Central Management Services' 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 State Employees' Deferred Compensation Plan Fund (755) and its compliance.

Restricted Use of this Auditor's Report

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the Comptroller, the Illinois State Board of Investment, and the Department's management and is not intended to be and should not be used by anyone other than these specified parties.

SIGNED ORIGINAL ON FILE

Springfield, Illinois
September 1, 2020

BASIC FINANCIAL STATEMENTS

ILLINOIS STATE EMPLOYEES' DEFERRED COMPENSATION PLAN

STATEMENTS OF PLAN NET POSITION

PENSION TRUST FUND

December 31, 2019 and 2018

	2019	2018
ASSETS		
Cash and cash equivalents		
Cash in custody of State Treasurer	$ 4,662,343	$ 4,237,834
Cash advanced to recordkeeping agent	2,895,882	2,287,089
Cash equivalent money market funds	68,543,468	58,835,999
Total cash and cash equivalents	76,101,693	65,360,922
Accounts receivable	879,809	757,119
Loans receivable	39,959,013	41,551,345
Total receivables	40,838,822	42,308,464
Investments		
Investment contracts	610,485,350	592,315,189
Mutual funds	134,825,635	113,194,082
Equity trust funds	1,293,143,310	1,059,570,368
Mixed trust funds	2,766,633,933	2,393,696,331
Total investments	4,805,088,228	4,158,775,970
Total Assets	4,922,028,743	4,266,445,356
LIABILITIES		
Accounts payable	1,321,338	940,523
Accrued compensated absences	97,051	126,699
Total Liabilities	1,418,389	1,067,222
NET POSITION		
Restricted for pensions	$ 4,920,610,354	$4,265,378,134

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

ILLINOIS STATE EMPLOYEES' DEFERRED COMPENSATION PLAN

STATEMENTS OF CHANGES IN PLAN NET POSITION

PENSION TRUST FUND

Years Ended December 31, 2019 and 2018

	2019	2018
ADDITIONS		
Contributions		
Pre-tax participant deferrals	$ 153,078,838	$ 153,673,077
Roth participant deferrals	9,260,487	7,511,103
Pre-tax participant accounts transferred in from qualified retirement plans	49,297,184	6,746,783
Roth participant transfers in from other qualified plans	2,031	161,869
Total Contributions	211,638,540	168,092,832
Investment Income		
Interest, dividends and other investment income	23,222,911	20,741,084
Net (depreciation) appreciation in fair value of investments	754,128,463	(215,657,833)
Total Investment Income	777,351,374	(194,916,749)
Less investment expense	(489,090)	(478,901)
Net Investment Income	776,862,284	(195,395,650)
Other Income		
Participant fees collected	3,037,730	3,000,123
Other operating income	292	22,058
Total Other Income	3,038,022	3,022,181
Total (Deductions) Additions	991,538,846	(24,280,637)
DEDUCTIONS		
Distributions:		
Terminations	105,104,921	84,923,741
Beneficiary distributions	21,477,819	19,478,645
Hardship	1,684,946	2,459,261
Loans deemed uncollectible and distributed	4,414,072	4,157,520
Participant accounts transferred out to other qualified plans	197,370,602	164,415,971
Recordkeeping and marketing expense	1,566,985	1,543,409
Fees paid from participant accounts	3,687,145	3,402,318
Administrative costs	925,166	1,139,484
Refunds	74,970	49,137
Total Deductions	336,306,626	281,569,486
CHANGE IN NET POSITION	655,232,220	(305,850,123)
NET POSITION RESTRICTED FOR PENSIONS, BEGINNING OF YEAR	$4,265,378,134	4,571,228,257
NET POSITION RESTRICTED FOR PENSIONS, END OF YEAR	$ 4,920,610,354	$ 4,265,378,134

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

1. ORGANIZATION

The Illinois State Employees' Deferred Compensation Plan (the Plan) is administered by the State of Illinois, Department of Central Management Services (the Department) at 801 South 7th Street, Springfield, Illinois. The Plan consists of the State Employees' Deferred Compensation Fund (Fund 755), a pension trust fund which records all the assets and liabilities and additions and deductions of the plan. A portion of the Fund is held in the State Treasury and certain administrative costs are appropriated. The current Director is Janel Forde. The current Deputy Director for the Bureau of Benefits is Shiloah Tubbs and the current acting division manager for the Plan is Chris Colantino. The Plan employed seven full-time employees during 2019. The Illinois State Board of Investment has oversight responsibilities for the Plan.

The Department is part of the executive branch of the State of Illinois and operates under the authority of and review by the Illinois General Assembly. Activities of the Plan are subject to the authority of the Office of the Governor, the State's chief executive office, and other departments of the executive and legislative branches of the government (such as the State Comptroller's Office) as defined by the General Assembly.

As described in the Illinois Comprehensive Annual Financial Report, the State of Illinois (the State) is the oversight unit which includes all funds, elected offices, departments and agencies of the State, as well as boards, commissions, authorities, universities, and colleges over which the State's executive or legislative branches exercise oversight responsibility. The Department is part of the primary government of the State of Illinois' executive branch. These financial statements present the statement of plan net position and statement of changes in plan net position for the years ended December 31, 2019 and 2018. The statements are not intended to, and do not present the financial position or changes in financial position of the Department or the State.

2. GENERAL DESCRIPTION OF THE PLAN

The following description of the Plan provides only general information. Participants should refer to the Plan agreement for a complete description of the Plan's provisions.

General

The Plan was created in accordance with Illinois Compiled Statutes (40 ILCS 5/24-101) and Section 457 of the Internal Revenue Code. The first contributions to the Plan were made in May 1979. Under Plan provisions, all employees of the State are eligible to voluntarily elect to contribute a portion of their compensation into the Plan through payroll deductions.

2. GENERAL DESCRIPTION OF THE PLAN (Continued)

General (Continued)

All amounts of compensation deferred or contributed pursuant to the Plan, all property and rights purchased with such amounts, and all income attributable to such amounts, property, or rights shall be held in one or more custodial accounts for the exclusive benefit of participants and beneficiaries under the Plan. Participants' rights under the Plan are limited to an amount equal to the fair market value of the deferred account for each participant.

Effective January 1, 1999, the State of Illinois amended the Plan in accordance with the provisions of Internal Revenue Code (IRC) Section 457(g). IRC Section 457(g) requires that assets and income thereon be held in trust for the exclusive benefit of participants and their beneficiaries. Accordingly, the net assets are no longer assets of the State of Illinois. However, due to the administrative involvement of the State of Illinois, this Plan is reported as a pension trust fund as required by the Governmental Accounting Standards Board (GASB).

Contributions

In compliance with IRC Section 457, the Plan limits the amount of an individual's annual contribution to 100 percent of their annual taxable compensation, not to exceed $18,500 or $19,000 for 2018 and 2019, respectively and $24,500 or $25,000 for participants age 50 or older for 2018 and 2019, respectively. The State does not make any contributions to the Plan.

In the Plan, the annual compensation on which the maximum is calculated is reduced by the following:

- Employee retirement system contributions, which are tax deferred under Section 414(h) of the IRC.
- Payroll deductions for the payment of group health insurance premiums and member life insurance premiums for coverage up to $50,000, elected by the employee through state sponsored plans.
- Employee contributions made to the Dependent or Medical Care Assistance Plan which are authorized under Section 125 of the IRC.

In accordance with IRC Section 457, the Plan allows participants a limited make-up on deferrals in the three years prior to the year a participant reaches normal retirement age. For each of these three years, a participant can defer the regular limit plus an additional amount based on actual underutilized deferrals which were made in prior years, up to a maximum of $37,000 or $38,000 for 2018 and 2019, respectively, (or twice the regular limits).

2. GENERAL DESCRIPTION OF THE PLAN (Continued)

Payment of Benefits

Participants may withdraw the current value of funds contributed upon termination of employment with the State of Illinois. Withdrawal can also be made due to financial hardship if approved by a committee established by the Plan.

Upon retirement, participants may select various payment options, including lump sum, partial lump sum, periodic payments or rollover to another qualified tax deferred retirement plan. The participants may wait to start the distribution of their account up to the tax year they turn age 70 ½. They can also stop or change their elected distribution method. Participants with accounts less than or equal to $5,000 who terminate their employment with the State of Illinois are required to take a lump sum distribution or transfer to another qualified retirement plan. Death beneficiaries may select similar payment options as retired employees. All investments of the Plan are held in custodial accounts for the exclusive benefit of the participants until such time as payments are made.

Loan Program

Effective January 2, 2013 the Plan began offering a loan program to qualifying participants. Loans are available to actively working, retired and/or separated from service employees. Accounts not eligible for loans include divorce settlements (QDRO (Qualified Domestics Relations Order) source), beneficiaries, participants currently taking installment payments and participants with an existing deemed loan (discussed below). The minimum loan amount is $1,000 and the maximum loan amount is the lesser of $50,000 reduced by the highest outstanding loan balance in the previous twelve months or 50% of the participant's current account balance. Loans may be taken for terms ranging from one to five years and monthly payments are set up to come directly out of the participant's bank account. There is a loan initiation fee of $75 which is paid by the participant to T. Rowe Price, who administers all loans. A loan maintenance fee of $25 was introduced in 2017. It is payable for any loan issued after April 3, 2017 with more than one payment remaining. This fee is extracted annually the first business day of October. The interest rate is set at the Prime interest rate (as published in the Wall Street Journal) plus one percent (1%). For the years 2018 and 2019 that rate ranged from 6.00% to 6.50%.

Loans are deemed to be in default once the cure period passes. The cure period ends on the earlier of: 1) the last business day of the calendar quarter following the calendar quarter in which the payment was missed or; 2) the date the benefits are distributed to the terminated participant either through a total distribution, partial distribution or election of installment payments. Once the cure period passes, the outstanding loan balance (including any accrued interest) is deemed distributed and subject to taxation. In the event of death, the loan is deemed taxable as of the date of the participant's death.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 and the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates.

Measurement Focus and Basis of Accounting

Pension Trust Fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Additions are recognized when earned and deductions are recorded when a liability is incurred, regardless of when the related cash flow takes place.

Cash and Cash Equivalents

Cash equivalents consist of money market mutual funds, funds maintained by the Office of the State Treasurer, and cash advanced to recordkeeping agency representatives. The cash advanced to the recordkeeping agent represents amounts withheld from employees but not remitted to the investment carriers at December 31, and other amounts, such as reinvested income and other fees.

Loans Receivable

Loans receivable reflects the current balance of outstanding participant loans as of December 31, 2018 and 2019. In accordance with the loan program, these loans are 100% backed by balances from participants' accounts. If a participant defaults on their loan, it is deemed uncollectable and taxable to the participant.

Investment Valuation and Income Recognition

With the implementation of GASB Statement No. 72, Fair Value Measurement and Application, investments in the guaranteed investment contracts are stated at contract value. Investments in mutual funds are stated at fair value as determined by using the closing price listed on national exchanges as of December 31. Investments in equity trust funds are also stated at fair value as reported by the respective trustees and investment managers.

Interest income from the investments in the guaranteed investment contracts and interest earned on temporary cash deposits in both the State Treasury and with the recordkeeping agent at the current money market rates are recorded as earned.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets are carried at cost, net of accumulated depreciation. The Illinois State Employees' Deferred Compensation Plan capitalizes purchases over $5,000 and uses the straight-line method to depreciate appropriate assets over their estimated useful lives of approximately five years.

Compensated Absences

Vested or accumulated vacation leave is recorded as a deduction and liability of the fund as the benefits accrue to employees. Until January 1, 1984, sick leave, which generally is earned one day per month with unlimited accumulation, was paid only where an employee was absent due to illness or other acceptable circumstances as outlined by personnel regulations. Effective January 1, 1984, upon death, retirement by resignation, or termination from State employment, employees are able to receive payment for one-half of accumulated sick leave earned subsequent to January 1, 1984, or full-service credit for such accumulated sick leave under the State Employees' Article of the State Pension Code.

Effective January 1, 1998, upon death, retirement by resignation, or termination from State employment, employees are no longer able to receive payment for accumulated sick leave earned subsequent to January 1, 1998.

Changes in compensated absences are as follows:

	2019	2018
Balance January 1	$ 126,699	$ 144,655
Additions	12,494	9,026
Deletions	(42,142)	(26,982)
Balance December 31	$ 97,051	$ 126,699
Current portion	$ 44,039	$ 17,956

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of plan net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. In addition to liabilities, the statement of plan net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources,* represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements

The implementation of Statement No. 84, *Fiduciary Activities*, which is intended to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported, did not occur for the year ended December 31, 2019. Statement No. 84, *Fiduciary Activities*, establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This was effective for reporting periods beginning after December 15, 2018. The State of Illinois, and the Department, elected to adopt the relief provided by Statement No. 95, *Postponement of Effective Dates of Certain Authoritative Guidance*, which provided temporary relief to governments and other stakeholders in light of the COVID-19 pandemic by postponing the effective dates of certain provisions in statements and implementation guides that first became effective or were scheduled to become effective for periods beginning after June 15, 2018, or later. Statement No, 84, *Fiduciary Activities*, was one of the statements covered by Statement No. 95. With the adoption of Statement No. 95, the implementation of Statement 84 is effective for reporting periods beginning after December 15, 2019.

4. RETIREMENT BENEFITS

Retirement benefits for Plan employees are provided under a separate State plan and are funded by State appropriations which are invested and accounted for by other State agencies.

5. DEPOSITS AND INVESTMENTS

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 Compiled Statutes (15 ILCS 520/11). Funds held by the State Treasurer have not been categorized as to credit risk because the Plan 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.

The Plan's investment policy allows investment options selected by the Illinois State Board of Investment (Board) after satisfactory review of such factors as the investment experience of the underlying manager, the suitability of the investment approach used, and the investment record.

The Plan assets shall be invested with care, skill and diligence that would be applied by a prudent professional investor, acting in a like capacity and knowledgeable in the investment of retirement funds and all transactions undertaken on behalf of the Plan shall be for the sole interest of Plan participants and beneficiaries.

5. DEPOSITS AND INVESTMENTS (Continued)

The objective of the Board is to offer a sufficient range of investment options to allow participants to diversify their account balances and construct portfolios that reasonably span the risk/return spectrum.

The fair market value of investments is summarized as follows:

	2019		2018
Stable Return Fund Investment contracts (at cost)	$ 610,485,350	^	$ 592,315,189 ^
Equity Trust Funds:			
Vanguard Inst 500 Index Trust	724,485,107		562,744,831
Northern Trust Collective Russell 2000	467,564,644	*	409,510,849*
Northern Trust Collective MSCI ACWI	101,093,559	*	87,314,688*
Total Equity Trust Funds	1,293,143,310		1,059,570,368
Mutual Funds:			
# Vanguard Total Bond Market Index Fund	134,825,635		113,194,082
## Vanguard Treasury Money Market Fund	68,543,468		58,835,999
Total Mutual Funds	203,369,103		172,030,081
Mixed Trust Funds:			
Vanguard Target Retirement 2015 Sel	328,138,652		311,096,615
Vanguard Target Retirement 2020 Sel	488,118,218		442,782,404
Vanguard Target Retirement 2025 Sel	523,025,297		451,308,058
Vanguard Target Retirement 2030 Sel	419,268,491		343,473,181
Vanguard Target Retirement 2035 Sel	310,287,811		249,754,086
Vanguard Target Retirement 2040 Sel	198,933,791		155,317,268
Vanguard Target Retirement 2045 Sel	99,036,699		75,339,848
Vanguard Target Retirement 2050 Sel	42,700,518		30,918,884
Vanguard Target Retirement 2055 Sel	20,491,922		14,792,705
Vanguard Target Retirement 2060 Sel	16,993,768		11,762,844
Vanguard Target Retirement Income Sel	319,638,766		307,150,438
Total Mixed Trust Funds	2,766,633,933		2,393,696,331
Total investments	4,873,631,696		4,217,611,969
Less: cash equivalents within investment portfolio	(68,543,468)		(58,835,999)
Investments as shown on Statement of Plan Net Position	$ 4,805,088,228		$ 4,158,775,970

* Plan's investment amount is greater than five percent of investment fund's total assets.
# Debt Investment Fund
Net of Locally Held Funds
^Balance stated at contract value per GASB No. 72.

5. DEPOSITS AND INVESTMENTS (Continued)

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to the investment, the Plan will not be able to recover the value of its investments that are in possession of an outside party. None of the Plan's investments are subject to custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. However, the Plan is a long-term retirement savings program with guidelines that consider a consistency of performance compared to set benchmarks and peer groups over the longer term rather than relying on an occasional exceptional year or short period of poor performance. Therefore, emphasis is placed on the long-term objectives of the investment vehicles. Interim performance reviews are conducted to continually monitor the investment vehicles to detect any significant changes or irregular progression that may prove to be outside the realm of the occasional short-term underperformance.

Credit Risk

The Plan has a formal Investment Policy regarding the number of investment options offered in each asset class (e.g. U.S. Large Cap Equity, U.S. Small Cap Equity, Money Market or Stable Value). Each of these options also has a performance expectation, a benchmark, which it is measured against. Investment options that are actively managed are expected to exceed their respective performance benchmarks net of fees, over a three to five-year market cycle, and rank above the median peer group universe. Investment options that are passively managed are expected to track their respective performance benchmarks.

A Watch List is utilized by the Plan for investment options that fail to meet expectations. The Plan employs an independent investment consultant who may recommend to the Illinois State Board of Investments to terminate an investment option based on the failure to adhere to stated investment objectives or strategies; substantial changes in investment objectives; material organizational changes; underperformance of the stated objective; or failure to maintain appropriate diversification. The Plan also has formal procedures for the replacement or dismissal of these investment options.

At December 31, 2019 and 2018, the following debt investment funds were rated as follows:

2019		Average Maturity
Vanguard Total Bond Market Index Fund	AAA (S&P)	8.10 years
2018		
Vanguard Total Bond Market Index Fund	AAA (S&P)	8.30 years

6. PLAN ADMINISTRATION

By statute, the Department administers the Plan. The Illinois State Board of Investment (ISBI) provides general supervision of the Plan pursuant to an interagency agreement with the Department. In performance of its responsibilities of developing and managing the Plan, ISBI has entered into a contract for recordkeeping services to be performed by T. Rowe Price Retirement Plan Services, Inc.

A. Asset fees intended to cover the costs of administration, including recordkeeping, are withdrawn from participants' accounts and recorded as revenue. In 2006, the annual fee was .15 percent on the total account value with a maximum of $35. The maximum fee was reduced in 2007 to $30. Effective January 2008, the Board declared a fee holiday and there have been no annual fees charged to the participants. This is an effort to reduce the balance of the Plan Fee Expense Account to an amount equal to approximately one years' worth of expenses. Effective January 1, 2014, the Board reinstituted the participant fee in the amount of $7.50 per quarter. The fee was changed effective March 30, 2017 to $16.75 per quarter or 0.25% of the account balance, whichever is less.

   Additional revenue includes interest earned by the Plan Expense and Payroll Adjustment accounts. These totaled $39,741 for 2018 and $59,241 for 2019.

B. For the Stable Return Fund, the investment management fees assessed by Invesco are calculated daily, based on values during the quarter, in accordance with an annual fee rate applied to billable assets value. The fees are paid on a quarterly basis.

   The billable assets value is determined at the end of each preceding calendar month based on 100 percent of total guaranteed investment contract assets. The annual fee rate schedule is as follows:

   .15 Percent of the first $50 million of billable assets,
   .10 Percent of the next $250 million of billable assets, and
   .05 Percent of billable assets in excess of $250 million.

   The mutual funds take their fund expenses, including investment management fees, before any dividends and/or capital gains are declared. Their fees and expenses are amortized and charged to the funds on an ongoing basis and shared equally by all other shareholders of the mutual funds. These fees are factored into fund price and are not easily identifiable.

   With the introduction of Separate accounts in recent years, (shown as Equity Trust and Stable Return Funds), the investment management fees and custodial fees are paid directly out of the funds and are shown separately on the financial statements as investment expenses since they are readily identifiable investment-related costs.

6. PLAN ADMINISTRATION (Continued)

C. Effective January 1, 2008, the Illinois State Board of Investment (ISBI) entered into a new agreement with T. Rowe Price Retirement Plan Services, Inc. for expanded recordkeeping services. This agreement was renegotiated and, as of April 1, 2010, the fees were reduced to $35 per participant per year ($8.75 per quarter). Effective May 1, 2015, the fees were reduced to $27 per participant per year ($6.75 per quarter).

7. TAX STATUS

The Plan constitutes an eligible deferred compensation plan under Section 457 of the Internal Revenue Code and, therefore, the amounts of compensation (and earnings thereon) deferred by employees participating in the Plan are not subject to federal income tax withholding nor are they includable in taxable income until actually paid or otherwise made available to the participant, a beneficiary, or an estate. In addition, early distributions are not subject to the 10% federal tax penalty.

For Illinois income tax purposes, per private letter ruling issued by the Illinois Department of Revenue on February 18, 1977, compensation deferred under the Plan will be treated the same as for federal income tax. On December 19, 1988, the Illinois Department of Revenue ruled that distributions from Internal Revenue Code Section 457 plans are not taxable under the Illinois Income Tax Act. Distributions qualify as Illinois income tax subtraction modifications and are not subject to withholding.

Amounts deferred are subject to social security taxes in the year deferred. Benefit payments under the Plan do not constitute earnings and thus are not subject to social security taxes in the year received as clarified by Social Security Act Amendments of 1983, P.L. 98-21.

The Plan obtained its latest determination letters on October 7, 1976 and February 18, 1977 for federal and state rulings, respectively. The Plan has been amended since receiving the determination letters. However, the Plan Administration (the Department) believes the Plan is currently designed and being operated in compliance with applicable requirements of the Internal Revenue Code.

As of January 4, 2016, a Roth designated contribution option was added to the Plan. The Roth provision allows employees to make after-tax contributions to their account which become available for withdrawal after separation of employment. Qualified distributions of Roth contributions (and earnings thereon) are tax-free for both State and Federal income tax purposes.

8. FAIR VALUE MEASUREMENTS

The Plan categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value giving the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The following is the fair value measurements for the years ended December 31, 2019 and 2018:

2019

		Fair Value Measurements Using		
	Fair Value	**Level 1**	**Level 2**	**Level 3**
Money Market mutual funds	$ 68,543,468	$ 68,543,468	$ -	$ -
Bond mutual funds	134,825,635	134,825,635	-	-
Blended trust funds	2,766,633,933	2,766,633,933	-	-
Equity trust funds	1,293,143,310	1,293,143,310	-	-
Guaranteed investment contracts	610,485,350	610,485,350	-	-
	$ 4,873,631,696	$ 4,873,631,696	$ -	$ -

2018

		Fair Value Measurements Using		
	Fair Value	**Level 1**	**Level 2**	**Level 3**
Money Market mutual funds	$ 58,835,999	$ 58,835,999	$ -	$ -
Bond mutual funds	113,194,082	113,194,082	-	-
Blended trust funds	2,393,696,331	2,393,696,331	-	-
Equity trust funds	1,059,570,368	1,059,570,368	-	-
Guaranteed investment contracts	592,315,189	592,315,189	-	-
	$ 4,217,611,969	$ 4,217,611,969	$ -	$ -

9. SUBSEQUENT EVENT

Subsequent events are events or transactions that occur after the statement of net position available for benefits date but before financial statements are issued or are available to be issued. These events and transactions either provide additional evidence about conditions that existed at the date of the statement of net position available for benefits, including the estimates inherent in the process of preparing financial statements (that is, recognized subsequent events), or provide evidence about conditions that did not exist at the date of the statement of net position available for benefits but arose after that date (that is, non-recognized subsequent events).

The Plan has evaluated subsequent events through September 1, 2020, which was the date that these financial statements were available for issuance

On March 9, 2020, in response to the COVID-19 pandemic, Illinois Governor JB Pritzker declared all counties in the State of Illinois a disaster area and ordered all Illinois schools closed by March 17, 2020. On March 20, 2020, the Governor issued a stay-at-home order for all Illinois residents effect March 21, 2020. The COVID-19 outbreak has resulted in the temporary reduction of government functions and workforce in the State of Illinois, while maintaining core functions and essential operations. Significant portions of the Governor's stay-at-home order were lifted on May 29, 2020. The State experienced and continues to experience a significant financial impact, from market volatility to unemployment compensation claims.

Subsequent to year end, the United States and global markets experienced significant declines in value resulting from uncertainty caused by the COVID-19 pandemic. The Plan is closely monitoring its investment portfolio and its liquidity. The financial statements do not include adjustments to fair value that have resulted from those declines.

The extent of the financial impact specific to the Plan is currently being monitored and evaluated but cannot be completely estimated at this time.

SUPPLEMENTARY INFORMATION

ILLINOIS STATE EMPLOYEES' DEFERRED COMPENSATION PLAN

COMBINED SCHEDULES OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES

Years Ended December 31, 2019 and 2018

	2019	2018
RECEIPTS		
Pre-tax participant deferrals	$ 152,772,504	$ 153,741,998
Roth participant deferrals	9,566,821	7,479,069
Participant accounts transferred in from other qualified retirement plans	41,275,044	5,834,291
Roth participant transfers in from other plans	2,031	161,869
Transfer from Plan Fee Expense account	1,200,000	1,200,000
Interest received:		
State Treasury	74,970	49,745
Other	290	22,058
Total receipts	204,891,660	168,489,030
DISBURSEMENTS		
Transfers to service agent for investment	203,436,622	166,817,125
Administrative costs	955,559	1,136,093
Refunds	74,970	49,137
Total disbursements	204,467,151	168,002,355
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS	424,509	486,675
CASH BALANCE, BEGINNING OF YEAR	4,237,834	3,751,159
CASH BALANCE, END OF YEAR	$ 4,662,343	$ 4,237,834

Note: The above schedule presents the combined cash transactions, and summarizes cash receipts and cash disbursements in the State Employees' Deferred Compensation Plan Fund in the State Treasury. The ending cash balance has been reconciled to the balance reported by the State Comptroller.

ILLINOIS STATE EMPLOYEES' DEFERRED COMPENSATION PLAN

SUMMARY SCHEDULES OF INVESTMENT INCREASES, DEDUCTIONS, AND BALANCES

Years Ended December 31, 2019 and 2018

	2019	2018
INVESTMENT INCREASES		
Deferral contributions	$ 162,354,230	$ 161,027,867
Participant accounts transferred in from other qualified retirement plans	49,083,366	6,657,952
Reinvested income	20,825,065	18,702,373
Loans repaid	17,875,932	17,378,133
Interest from participant loans	2,262,124	1,947,483
Net (depreciation) appreciation in value	754,128,463	(215,657,833)
Total increase	1,006,529,180	(9,944,025)
INVESTMENT DEDUCTIONS		
Distributions:		
Terminations	105,104,921	84,923,741
Beneficiary distributions	21,477,819	19,478,645
Hardship	1,684,946	2,459,261
Total distributions	128,267,686	106,861,647
Participant accounts transferred out to other plans	197,370,602	164,415,971
Loans paid out	20,697,672	25,088,046
Fees paid from participant accounts	3,687,145	3,402,318
Investment expenses	486,348	720,744
Total deductions in response to distribution qualifying events	350,509,453	300,488,726
NET INCREASE IN INVESTMENTS DURING THE YEAR	656,019,727	(310,432,751)
INVESTMENT BALANCE, BEGINNING OF YEAR	4,217,611,969	4,528,044,720
INVESTMENT BALANCE, END OF YEAR	4,873,631,696	4,217,611,969
LESS CASH EQUIVALENTS IN INVESTMENT PORTFOLIO	(68,543,468)	(58,835,999)
INVESTMENT BALANCE PER STATEMENT OF NET POSITION	$ 4,805,088,228	$4,158,775,970
NUMBER OF PARTICIPANTS	59,532	53,709
AVERAGE ACCOUNT VALUE	$ 81,866	$ 78,527
LARGEST ACCOUNT VALUE	$ 3,595,028	$ 2,733,537
SMALLEST ACCOUNT VALUE	$ 10	$ 10

Note: This schedule summarizes amounts withheld from State employees under the deferred compensation program and which were invested in the various investment vehicles of the Plan. Due to timing differences relating to the deposit of funds into the various investment vehicles, certain amounts may be included in the cash balance at year-end and balances reflected on this schedule may not agree with balances reported on the Statement of Plan Net

ILLINOIS STATE EMPLOYEES' DEFERRED COMPENSATION PLAN

SCHEDULES OF ADMINISTRATIVE COSTS

Years Ended December 31, 2019 and 2018

	2019	2018
Salaries	$ 470,682	$ 564,496
Fringe benefits	304,411	429,992
Computer software and services	11,132	53,079
Telecommunications	8,926	-
Contractual services	127,861	90,146
Printing	-	62
Other	149	133
Office supplies	2,005	1,576
TOTAL ADMINISTRATIVE COSTS	$ 925,166	$ 1,139,484

Note: The above schedule summarizes the administrative costs incurred by the Department of Central Management Services in connection with the Deferred Compensation Plan. These costs are stated on an accrual basis and have been paid from the State Employees' Deferred Compensation Plan Fund. Annual appropriations are made to the Department for these administrative expenses. Purchases of investments in the various funds and payments of benefits to participants are made under continuing appropriations provided under Public Act 80-1181, effective January 30, 1978.

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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 Frank J. Mautino
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the State Employees' Deferred Compensation Plan Fund (755) of the State of Illinois, Department of Central Management Services, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the State of Illinois, Department of Central Management Services' State Employees' Deferred Compensation Plan Fund's (755) basic financial statements, and we have issued our report thereon dated September 1, 2020.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Illinois, Department of Central Management Services' State Employees' Deferred Compensation Plan Fund's (755) 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 audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

Management of the State of Illinois, Department of Central Management Services' State Employees' Deferred Compensation Plan Fund (755) is responsible for establishing and maintaining effective internal control over financial reporting (internal control).

In planning and performing our audits of the financial statements, we considered the State of Illinois, Department of Central Management Services' internal control over financial reporting (internal control) of the State Employees' Deferred Compensation Plan Fund (755) 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 that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

SIGNED ORIGINAL ON FILE

Springfield, Illinois
September 1, 2020