



**STATE OF ILLINOIS  
DEPARTMENT OF  
CENTRAL MANAGEMENT SERVICES**

---

**FINANCIAL AUDIT**

**For the Year Ended June 30, 2020**

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

An abstract background consisting of overlapping, semi-transparent geometric shapes in shades of gray and white, creating a complex, layered effect.

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STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES  
FINANCIAL AUDIT  
For the Year Ended June 30, 2020

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STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES  
FINANCIAL AUDIT  
For the Year Ended June 30, 2020

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STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

FINANCIAL AUDIT  
For the Year Ended June 30, 2020

**AGENCY OFFICIALS**

Director (2/18/2020 - Present)	Ms. Janel Forde
Director (Acting) (7/1/2019 - 2/17/2020)	Ms. Janel Forde
Assistant Director (12/4/2020-Present)	Vacant
Assistant Director (Acting) (7/15/2019 – 12/3/2020)	Mr. Michael Merchant
Assistant Director (7/1/2019 - 7/14/2019)	Vacant
Chief of Staff	Mr. Anthony Pascente
Chief Administrative Officer	Mr. Mark Mahoney
Chief Operating Officer	Ms. Aysegul Kalaycioglu
Chief Fiscal Officer (1/21/2021-Present)	Ms. Karen Pape
Chief Fiscal Officer (Acting) (7/1/2019-1/20/2021)	Ms. Karen Pape
General Counsel (7/22/2019 – Present)	Mr. Terrence Glavin
General Counsel (7/1/2019 - 7/21/2019)	Vacant
Chief Internal Auditor	Mr. Jack Rakers

Agency main offices are located at:

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

STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES  
FINANCIAL AUDIT  
For the Year Ended June 30, 2020

**FINANCIAL STATEMENT REPORT**

**SUMMARY**

The audit of the accompanying financial statements of the State of Illinois, Department of Central Management Services (Department) was performed by Sikich LLP.

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

**SUMMARY OF FINDINGS**

The auditors identified one matter involving the Department's internal control over financial reporting that they considered to be a significant deficiency.

<u>Item No.</u>	<u>Pages</u>	<u>Last/First Report</u>	<u>Description</u>	<u>Finding Type</u>
CURRENT FINDINGS				
2020-001	63-66	2020/2019*	Inadequate Review of External Service Providers	Significant Deficiency
2020-002	67-69	2020/New	Lack of Census Data Reconciliations	Significant Deficiency

\*2019-009 was last reported in the Department's Compliance Examination for the two years ended June 30, 2019.

**EXIT CONFERENCE**

The Department waived an exit conference in a correspondence from Amy Lange, Audit Liaison, on April 20, 2021. The responses to the recommendations were provided by Amy Lange, Audit Liaison, in a correspondence dated April 30, 2021.

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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 governmental activities, the business-type activities, the major fund, and the aggregate remaining fund information of the State of Illinois, Department of Central Management Services (Department), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Department's 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the major fund, and the aggregate remaining fund information of the Department, as of June 30, 2020, and the respective changes in its financial position, and, where applicable, cash flows 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 to the financial statements, the financial statements of the Department are intended to present the financial position, the changes in financial position, and, where applicable, cash flows of only that portion of the governmental activities, the business-type activities, the major fund, and the aggregate remaining fund information of the State of Illinois that is attributable to the transactions of the Department. These financial statements do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2020, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Management has omitted a management's discussion and analysis, budgetary comparison information for the General Revenue Fund, pension-related supplementary information, and other postemployment benefits (OPEB) related supplementary information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements.

The accompanying supplementary combining financial statements are presented for purposes of additional analysis and are presented for purposes of additional analysis and are 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 6, 2021, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

#### **Restricted Use of this Auditor's Report**

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the Comptroller, and Department 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  
May 6, 2021

## BASIC FINANCIAL STATEMENTS

**State of Illinois**  
**Department of Central Management Services**

**Statement of Net Position**

June 30, 2020 (Expressed in Thousands)

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>			
Unexpended appropriations	\$ 44,286	\$ -	\$ 44,286
Cash equity with State Treasurer	48,398	5,176	53,574
Cash and cash equivalents	83,174	1,972	85,146
Securities lending collateral equity of State Treasurer	16,871	1,673	18,544
Receivables, net:			
Intergovernmental	5,530	484	6,014
Other	26,204	298	26,502
Due from other Department funds	3	-	3
Due from other Department fiduciary funds	20	-	20
Due from other State funds	724,023	-	724,023
Due from other State fiduciary funds	68	-	68
Due from State of Illinois component units	11,080	-	11,080
Prepaid expenses	40,310	1,104	41,414
Inventories	1,887	-	1,887
Capital assets not being depreciated	39,713	-	39,713
Capital assets being depreciated, net	139,238	-	139,238
<b>Total assets</b>	<b>1,180,805</b>	<b>10,707</b>	<b>1,191,512</b>
Deferred outflows of resources - pensions	38,092	-	38,092
Deferred outflows of resources - OPEB	35,076	-	35,076
<b>Total Deferred outflows of resources</b>	<b>73,168</b>	<b>-</b>	<b>73,168</b>
<b>Total assets and deferred outflows of resources</b>	<b>1,253,973</b>	<b>10,707</b>	<b>1,264,680</b>
<b>LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>			
Accounts payable and accrued liabilities	1,337,808	3,738	1,341,546
Intergovernmental payables	2,759	1	2,760
Due to Department funds	-	3	3
Due to other State fiduciary funds	1,547	5	1,552
Due to other State funds	238,131	8	238,139
Due to State of Illinois component units	876	-	876
Obligations under securities lending of State Treasurer	16,871	1,673	18,544
Unearned revenue	-	19	19
Long term obligations:			
Due within one year	108,984	8	108,992
Due subsequent to one year	482,242	12	482,254
Net pension liability	91,537	-	91,537
Total OPEB liability			
Due within one year	1,420	-	1,420
Due subsequent to one year	84,229	-	84,229
<b>Total liabilities</b>	<b>2,366,404</b>	<b>5,467</b>	<b>2,371,871</b>
Deferred inflows of resources - pensions	102,182	-	102,182
Deferred inflows of resources - OPEB	86,309	-	86,309
<b>Total Deferred inflows of resources</b>	<b>188,491</b>	<b>-</b>	<b>188,491</b>
<b>Total liabilities and deferred inflows of resources</b>	<b>2,554,895</b>	<b>5,467</b>	<b>2,560,362</b>
<b>NET POSITION</b>			
Net investment in capital assets	178,951	-	178,951
Unrestricted	(1,479,873)	5,240	(1,474,633)
<b>Total net position</b>	<b>\$ (1,300,922)</b>	<b>\$ 5,240</b>	<b>\$ (1,295,682)</b>

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

**State of Illinois  
Department of Central Management Services**

**Statement of Activities**

For the Year Ended June 30, 2020 (Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenues and Changes in Net Position		
		Charges for Services	Federal	Governmental Activities	Business-Type Activities	Total
<b>Primary government</b>						
Governmental activities						
General government	\$ 3,366,944	\$ 2,793,712	\$ 1,015	\$ (572,217)	\$ (572,217)	\$ (572,217)
Education	741,015	-	-	(741,015)	(741,015)	(741,015)
Employment and economic development	23,982	-	-	(23,982)	(23,982)	(23,982)
Health and social services	304,152	-	-	(304,152)	(304,152)	(304,152)
Transportation	150,207	-	-	(150,207)	(150,207)	(150,207)
Public protection and justice	326,676	-	-	(326,676)	(326,676)	(326,676)
Environment and business regulation	55,742	-	-	(55,742)	(55,742)	(55,742)
Total governmental activities	4,968,718	2,793,712	1,015	(2,173,991)	(2,173,991)	(2,173,991)
<b>Business type activities</b>						
Insurance program	\$ 35,564	\$ 40,174			\$ 4,610	\$ 4,610
Total business-type activities	35,564	40,174			4,610	4,610
<b>Total primary government</b>	<u>\$ 5,004,282</u>	<u>\$ 2,833,886</u>			<u>\$ (2,169,381)</u>	<u>\$ (2,169,381)</u>
<b>General revenues</b>						
Appropriations from State Resources				2,273,474	-	2,273,474
Lapsed appropriations				(2,047)	-	(2,047)
Receipts collected and transmitted to State Treasury				(943)	-	(943)
Interest and investment income				3,164	59	3,223
Other revenues				8,038	31	8,069
Capital transfers from other State agencies				14,800	-	14,800
Capital contributions				2,162	-	2,162
Amount of SAMS transfers-in				(814)	-	(814)
Total general revenues and transfers				2,297,834	90	2,297,924
Change in net position				123,843	4,700	128,543
Net position, July 1, 2019				(1,424,765)	540	(1,424,225)
<b>Net position, June 30, 2020</b>				<u>\$ (1,300,922)</u>	<u>\$ 5,240</u>	<u>\$ (1,295,682)</u>

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

**State of Illinois**  
**Department of Central Management Services**

**Balance Sheet -**  
**Governmental Funds**

June 30, 2020 (Expressed in Thousands)

	<u>General Fund</u>	<u>Nonmajor Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Unexpended appropriations	\$ 44,286	\$ -	\$ 44,286
Cash equity with State Treasurer	-	1,129	1,129
Receivables, net:			
Other receivables	72	2	74
Due from other Department funds	2,343	-	2,343
<b>Total assets</b>	<u>\$ 46,701</u>	<u>\$ 1,131</u>	<u>\$ 47,832</u>
<b>LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>			
Accounts payable and accrued liabilities	\$ 1,998	\$ 12	\$ 2,010
Intergovernmental payables	183	-	183
Due to other Department funds	1,088,046	54,527	1,142,573
Due to other State funds	233,597	168	233,765
Due to State of Illinois component units	171	-	171
Matured portion of long-term obligations	391	-	391
<b>Total liabilities</b>	<u>1,324,386</u>	<u>54,707</u>	<u>1,379,093</u>
Deferred inflows of resources - unavailable revenue	64	-	64
<b>Total liabilities and deferred inflows of resources</b>	<u>1,324,450</u>	<u>54,707</u>	<u>1,379,157</u>
<b>FUND BALANCES (DEFICITS)</b>			
Unassigned	<u>(1,277,749)</u>	<u>(53,576)</u>	<u>(1,331,325)</u>
Total fund balances (deficits)	<u>(1,277,749)</u>	<u>(53,576)</u>	<u>(1,331,325)</u>
<b>Total liabilities, deferred inflows of resources and fund balances (deficits)</b>	<u>\$ 46,701</u>	<u>\$ 1,131</u>	<u>\$ 47,832</u>

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

**State of Illinois**  
**Department of Central Management Services**  
**Reconciliation of Governmental Funds Balance Sheet**  
**to Statement of Net Position**  
**June 30, 2020**  
**(Expressed in Thousands)**

**Total fund balances-governmental funds** \$ (1,331,325)

Amounts reported for governmental activities in the  
Statement of Net Position are different because:

Capital assets used in governmental activities are not financial  
resources and therefore are not reported in the funds. 12,877

Revenues in the Statement of Activities that do not provide  
current financial resources are deferred in governmental funds. 64

Internal service funds are used to charge costs of certain  
activities to individual funds. The assets and liabilities of the  
internal service funds are reported as governmental activities  
in the Statement of Net Position. 316,360

Deferred outflows of resources related to pensions. 38,092

Deferred inflows of resources related to pensions. (102,182)

Deferred outflows of resources related to OPEB. 35,076

Deferred inflows of resources related to OPEB. (86,309)

Some liabilities reported in the Statement of Net Position do not  
require the use of current financial resources and therefore are  
not reported as liabilities in governmental funds. These  
liabilities consist of:

Compensated absences	(576)	
Auto liability claims	(5,813)	
Total OPEB liability	(85,649)	
Net pension liability	(91,537)	
	(183,575)	(183,575)

**Net position of governmental activities** **\$ (1,300,922)**

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

**State of Illinois**  
**Department of Central Management Services**

**Statement of Revenues, Expenditures**  
**and Changes in Fund Balances - Governmental Funds**

For the Year Ended June 30, 2020 (Expressed in Thousands)

	<u>General Fund</u>	<u>Nonmajor Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>			
Other	\$ 38	\$ 2,651	\$ 2,689
Federal operating revenues	-	1,015	1,015
Other charges for services	-	84	84
<b>Total revenues</b>	<u>38</u>	<u>3,750</u>	<u>3,788</u>
<b>EXPENDITURES</b>			
General government	179,461	3,172	182,633
Education	925,226	-	925,226
Employment and economic development	29,944	-	29,944
Health and social services	379,762	-	379,762
Transportation	31,360	143,312	174,672
Public protection and justice	407,885	-	407,885
Environment and business regulation	69,599	-	69,599
<b>Total expenditures</b>	<u>2,023,237</u>	<u>146,484</u>	<u>2,169,721</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<u>(2,023,199)</u>	<u>(142,734)</u>	<u>(2,165,933)</u>
<b>OTHER SOURCES (USES) OF FINANCIAL RESOURCES</b>			
Appropriations from State resources	2,111,941	161,533	2,273,474
Lapsed appropriations	(2,047)	-	(2,047)
Receipts collected and transmitted to State Treasury	(40)	(903)	(943)
Amount of SAMS transfers-in	(814)	-	(814)
Transfers-in	745	-	745
Transfers-out	-	(745)	(745)
<b>Net other sources (uses) of financial resources</b>	<u>2,109,785</u>	<u>159,885</u>	<u>2,269,670</u>
<b>Net change in fund balances</b>	86,586	17,151	103,737
Fund balances (deficits), July 1, 2019	<u>(1,364,335)</u>	<u>(70,727)</u>	<u>(1,435,062)</u>
<b>Fund Balances (Deficits), June 30, 2020</b>	<u>\$ (1,277,749)</u>	<u>\$ (53,576)</u>	<u>\$ (1,331,325)</u>

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

**State of Illinois**  
**Department of Central Management Services**  
**Reconciliation of Statement of Revenues, Expenditures and Changes in**  
**Fund Balances of Governmental Funds to Statement of Activities**  
**For the Year Ended June 30, 2020**  
**(Expressed in Thousands)**

<b>Net change in fund balances</b>	\$	103,737
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<p>Capital outlays are reported as expenditures in governmental funds. However, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. This amount represents the excess of capital outlay over depreciation expense, including depreciation expense for impairment of capital assets.</p>		(17,107)
<p>Transfers of capital assets to and from proprietary funds and other funds of the State are not recorded in governmental funds. This amount represents the net transfers of capital assets between governmental funds and proprietary funds or other funds of the State in the Statement of Activities.</p>		14,800
<p>Internal service funds are used to charge the costs of certain activities to individual funds. The change in net position of the internal service funds is reported as governmental activities in the Statement of Activities.</p>		1,288
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. This amount represents the decrease in unavailable revenue from the prior year.</p>		(39)
<p>Pensions:</p>		
Change in deferred outflows of resources.		(24,114)
Change in deferred inflows of resources.		41,066
<p>OPEB:</p>		
Change in deferred outflows of resources.		2,926
Change in deferred inflows of resources.		26,028
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. Below are such activities.</p>		
Increase in compensated absences obligation		(156)
Decrease in auto liability claims		1,297
Increase in net other postemployment benefit obligations		(16,591)
Increase in net pension liability		(9,292)
<b>Change in net position of governmental activities</b>	<b>\$</b>	<b>123,843</b>

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

**State of Illinois**  
**Department of Central Management Services**

**Statement of Net Position -**  
**Proprietary Funds**

June 30, 2020 (Expressed in Thousands)

	<b>Governmental Activities - Internal Service Funds</b>	<b>Business-Type Activities - Enterprise Fund Local Government Health Insurance Reserve Fund</b>
<b>ASSETS</b>		
Cash equity with State Treasurer	\$ 47,269	\$ 5,176
Cash and cash equivalents	83,174	1,972
Securities lending collateral equity of State Treasurer	16,871	1,673
Receivables, net:		
Intergovernmental	5,530	484
Other	26,130	298
Due from other Department fiduciary funds	20	-
Due from other State fiduciary funds	68	-
Due from other Department funds	1,144,690	-
Due from other State funds	724,023	-
Due from State of Illinois component units	11,080	-
Prepaid expenses	40,310	1,104
Inventories	1,887	-
<b>Total current assets</b>	<b>2,101,052</b>	<b>10,707</b>
Capital assets not being depreciated	38,838	-
Capital assets being depreciated, net	127,236	-
<b>Total noncurrent assets</b>	<b>166,074</b>	<b>-</b>
<b>Total assets</b>	<b>2,267,126</b>	<b>10,707</b>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	1,335,798	3,738
Intergovernmental payables	2,576	1
Due to other State fiduciary funds	1,547	5
Due to other Department funds	4,457	3
Due to other State funds	4,366	8
Due to State of Illinois component units	705	-
Obligations under securities lending of State Treasurer	16,871	1,673
Unearned Revenue	-	19
Current portion of long-term obligations	107,033	8
<b>Total current liabilities</b>	<b>1,473,353</b>	<b>5,455</b>
Noncurrent portion of long-term obligations	477,413	12
<b>Total liabilities</b>	<b>1,950,766</b>	<b>5,467</b>
<b>NET POSITION</b>		
Net investment in capital assets	166,074	-
Unrestricted	150,286	5,240
<b>Total net position</b>	<b>\$ 316,360</b>	<b>\$ 5,240</b>

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

**State of Illinois**  
**Department of Central Management Services**

**Statement of Revenues, Expenses and Changes in  
Fund Net Position - Proprietary Funds**

For the Year Ended June 30, 2020 (Expressed in Thousands)

	<b>Governmental Activities - Internal Service Funds</b>	<b>Business-Type Activities - Enterprise Fund  Local Government Health Insurance Reserve Fund</b>
<b>OPERATING REVENUES</b>		
Charges for sales and services	\$ 3,194,650	\$ 40,174
Other	91	-
<b>Total operating revenues</b>	<b>3,194,741</b>	<b>40,174</b>
<b>OPERATING EXPENSES</b>		
Cost of sales and services	277,349	-
Claims and judgments	2,748,402	-
Benefit payments and refund	-	34,088
General and administrative	75,866	1,472
Depreciation	19,634	-
Other	12	-
<b>Total operating expenses</b>	<b>3,121,263</b>	<b>35,560</b>
<b>Operating income (loss)</b>	<b>73,478</b>	<b>4,614</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest and investment income	3,164	59
Interest expense	(82,788)	(4)
Other revenue	5,297	31
Other expense	(25)	-
<b>Income (loss) before contributions</b>	<b>(874)</b>	<b>4,700</b>
Contributions of capital assets	2,162	-
<b>Change in net position</b>	<b>1,288</b>	<b>4,700</b>
Net position, July 1, 2019	315,072	540
<b>Net position, June 30, 2020</b>	<b>\$ 316,360</b>	<b>\$ 5,240</b>

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

**State of Illinois**  
**Department of Central Management Services**

**Statement of Cash Flows -**  
**Proprietary Funds**

For the Year Ended June 30, 2020 (Expressed in Thousands)

	<b>Governmental Activities - Internal Service Funds</b>	<b>Business-Type Activities - Enterprise Fund  Local Government Health Insurance Reserve Fund</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from sales and services	\$ 141,793	\$ 39,967
Cash received from transactions with other funds	3,804,421	-
Cash payments to internal service funds	(28,986)	(205)
Cash payments to suppliers for goods and services	(3,736,696)	(38,410)
Cash payments to employees for services	(58,524)	(504)
Cash receipts from other operating activities	82,449	1,356
Cash payments for other operating activities	(99,909)	-
Net cash provided (used) by operating activities	<u>104,548</u>	<u>2,204</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Interest paid on revenue bonds and other borrowings	-	(5)
Grants received	5,457	45
Other noncapital financing activities	(149,808)	-
Net cash provided (used) by noncapital financing activities	<u>(144,351)</u>	<u>40</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and construction of capital assets	(12,111)	-
Net cash (used) by capital and related financing activities	<u>(12,111)</u>	<u>-</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest and dividends on investments	3,271	59
Net cash provided (used) by investing activities	<u>3,271</u>	<u>59</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(48,643)</b>	<b>2,303</b>
Cash and cash equivalents, July 1, 2019	<u>179,086</u>	<u>4,845</u>
<b>CASH AND CASH EQUIVALENTS, JUNE 30, 2020</b>	<b><u>130,443</u></b>	<b><u>7,148</u></b>
<b>Reconciliation of cash and cash equivalents to the statement of net assets:</b>		
Total cash and cash equivalents per the statement of net assets	83,174	1,972
Add: cash equity with State Treasurer	47,269	5,176
<b>CASH AND CASH EQUIVALENTS, JUNE 30, 2020</b>	<b><u>130,443</u></b>	<b><u>7,148</u></b>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>		
<b>OPERATING INCOME (LOSS)</b>	<b><u>73,478</u></b>	<b><u>4,614</u></b>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	19,634	-
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	4,738	95
(Increase) decrease in intergovernmental receivables	13	(225)
(Increase) decrease in due from other funds	755,756	-
(Increase) decrease in due from State of Illinois component units	62	-
(Increase) decrease in inventory	4	-
(Increase) decrease in prepaid expenses	(40,310)	(1,104)
Increase (decrease) in accounts payable and accrued liabilities	(671,927)	(1,094)
Increase (decrease) in intergovernmental payables	(548)	-
Increase (decrease) in due to other State funds	(17,512)	(69)
Increase (decrease) in due to State of Illinois component units	244	-
Increase (decrease) in unearned revenues	(2,699)	1
Increase (decrease) in other liabilities	(16,385)	(14)
Total adjustments	<u>31,070</u>	<u>(2,410)</u>
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b><u>\$ 104,548</u></b>	<b><u>\$ 2,204</u></b>
<b>NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES</b>		
Transfers of assets from (to) other State funds	\$ (17)	\$ -
Gain (loss) on sale of property and equipment	(8)	-
Transfer of capital assets, net of related debt, to/from other State funds	2,162	-

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

**State of Illinois**  
**Department of Central Management Services**

**Statement of Fiduciary Net Position**  
**Pension (and Other Employee Benefit) Trust Funds**

June 30, 2020 (Expressed in Thousands)

	<b>Pension (and Other Employee Benefit) Trust Funds</b>	<b>Agency Funds</b>
<b>ASSETS</b>		
Cash equity with State Treasurer	\$ 23,702	\$ 12,333
Cash and cash equivalents	117,163	1,076
Investments:		
Equities	3,815,155	-
Debt mutual funds	154,127	-
Other	638,480	-
Intergovernmental receivables	1,140	-
Other receivables, net	22,459	2,938
Due from other State funds	205,228	-
Loans and note receivable, net	37,488	-
Prepaid expenses	7,005	
Securities lending collateral equity of State Treasurer	6,541	3,268
<b>Total assets</b>	<b>5,028,488</b>	<b>19,615</b>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	162,303	16,246
Intergovernmental payables	3	-
Due to other Department funds	20	-
Due to other State fiduciary funds	28	-
Due to other State funds	2,879	-
Due to State of Illinois component units	-	101
Obligations under securities lending of State Treasurer	6,541	3,268
Current portion of long-term obligations	31	-
Noncurrent portion of long-term obligations	125	-
<b>Total liabilities</b>	<b>171,930</b>	<b>\$ 19,615</b>
<b>NET POSITION</b>		
Unrestricted net position	(87,971)	
Restricted for OPEB	188,822	
Restricted for pensions	4,755,707	
<b>Total net position</b>	<b>\$ 4,856,558</b>	

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

**State of Illinois**  
**Department of Central Management Services**

**Statement of Changes in Fiduciary Net Position**  
**Pension (and Other Employee Benefit) Trust Funds**

For the Year Ended June 30, 2020 (Expressed in Thousands)

	<b>Pension (and Other Employee Benefit) Trust Funds</b>
<b>Deposits/Contributions:</b>	
Employer	\$ 103,414
State	138,494
Members/participants	303,478
Other contributions	54,513
Total contributions	<u>599,899</u>
<b>Investment income:</b>	
Interest, dividends and other investment income	22,738
Net increase in fair value of investments	141,289
Reimbursement of investment expenses not separable from investment income	3,047
Less: investment expense	(499)
Net investment income	<u>166,575</u>
<b>Total additions</b>	<u>766,474</u>
<b>Deductions:</b>	
Benefit payments	575,771
Refunds	108
Other Deductions	3,651
General and administration	16,147
<b>Total deductions</b>	<u>595,677</u>
<b>Net increase in net position</b>	170,797
Net position, July 1, 2019	<u>4,685,761</u>
<b>Net position, June 30, 2020</b>	<u>\$ 4,856,558</u>

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

STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2020

**(1) Organization**

The Department of Central Management Services (the Department) is a part of the executive branch of government of the State of Illinois (State) and operates under the authority of and review by the Illinois General Assembly. The Department operates under a budget approved by the General Assembly in which resources are appropriated for the use of the Department. Activities of the Department are subject to the authority of the Office of the Governor, the State's chief executive officer, and other departments of the executive and legislative branches of government (such as the Governor's Office of Management and Budget, the State Treasurer's Office, and the State Comptroller's Office) as defined by the Illinois General Assembly. All funds appropriated to the Department and all other cash received are under the custody and control of the State Treasurer, with the exception of the Facilities Management Fund, the State Employees' Deferred Compensation Plan, the Flexible Spending Account and health insurance funds.

The Department provides a variety of centralized services for the operation of State Government. The Department provides personnel services for State agencies; purchases goods and services for State agencies; manages state property and disseminates information about State Government to the news media and general public. It employs volume purchasing and economies of scale to reduce costs and improve government efficiency. The Department provides healthcare coverage for employees of the State of Illinois, local governments and schools through group insurance plan administration. The Department promotes the economic development of minority and female businesses as well as businesses hiring persons with disabilities.

**(2) Summary of Significant Accounting Policies**

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

**(a) Financial Reporting Entity**

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

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

STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2020

(2) **Summary of Significant Accounting Policies (Continued)**

(b) ***Basis of Presentation***

The financial statements of the State of Illinois, Department of Central Management Services, are only intended to present the financial position, the changes in financial position, and the cash flows, when applicable, of that portion of the governmental activities, each major fund of the State of Illinois that is attributable to the transactions of the Department, and the aggregate remaining fund information of the State of Illinois that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2020, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

***Government-wide Statements.*** The government-wide statement of net position and statement of activities report the overall financial activity of the Department, excluding fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities of the Department. The financial activities of the Department consist only of governmental activities, which are primarily supported by taxes, charges for services, and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of net position presents the assets and deferred outflows of resources and liabilities and deferred inflows of resources of the Department's governmental and business-type activities with the difference being reported as net position. The assets and liabilities are presented in order of their relative liquidity by class of asset or liability with liabilities whose average maturities are greater than one year reported in two components - the amount due within one year and the amount due in more than one year.

The statement of activities presents a comparison between direct expenses and program revenues for the general government function of the Department's governmental activities. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges paid by the recipients of goods or services offered by the programs. Revenues that are not classified as program revenues, including sales of surplus State property, are presented as general revenues.

***Fund Financial Statements.*** The fund financial statements provide information about the Department's funds, including fiduciary funds. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented. The emphasis on fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

The Department administers the following major governmental fund (or portions thereof in the case of shared funds) - see note 2(d):

**General** – This is the State's primary operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund. The services which are administered by the Department and accounted for in the general fund include, among others, general government services and healthcare benefits for State employees. The Department's General Fund grouping contains one primary sub-account (General Revenue – 001).

STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2020

(2) **Summary of Significant Accounting Policies (Continued)**

(b) ***Basis of Presentation (Continued)***

Additionally, the Department reports the following fund types:

**Governmental Fund Types:**

**Special Revenue** – These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Special revenue funds account for, among other things, federal grant programs, taxes levied with statutorily defined distributions and other resources restricted as to purpose.

**Proprietary Fund Types:**

**Internal Service** – These funds account for fleet management, facilities management, professional services, workers compensation claims, and life insurance payments for State employees provided to agencies of the State on a reimbursement basis.

**Enterprise** – This fund accounts for operations where the intent of the Department is that the cost providing goods or services for health insurance programs on a continuing basis be financed or recovered primarily through user charges.

**Fiduciary Fund Types:**

**Pension (and other Employee Benefit) Trust** – These funds account for resources that are required to be held in trust for payment of postemployment benefits on-behalf of beneficiaries.

**Agency** – These funds account for amounts in which the Department acts in the capacity of an agent and collects and distributes employee payroll withholdings for purchase of life insurance, tax-free payments of eligible medical and dental expenses, and tax-free payments of eligible child and/or adult day care costs.

(c) ***Measurement Focus and Basis of Accounting***

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus (except for agency funds which do not have a measurement focus) and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. Non-exchange transactions, in which the Department gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants and donations. Revenue from grants and donations are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been met.

STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2020

**(2) Summary of Significant Accounting Policies (Continued)**

**(c) Measurement Focus and Basis of Accounting (Continued)**

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However, principal and interest on formal debt issues, claims and judgments, and compensated absences are recorded only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Significant revenue sources which are susceptible to accrual include interest and other charges for services. All other revenue sources including fines, penalties, licenses and other miscellaneous revenues are considered to be measurable and available only when cash is received.

**(d) Shared Fund Presentation**

The financial statement presentation for the General Revenue Account of the General Fund and the Road Fund represent only the portion of shared funds that can be directly attributed to the operations of the Department. Financial statements for total fund operations of the shared State funds are presented in the State of Illinois' Comprehensive Annual Financial Report.

In presenting these financial statements, certain unique accounts are used for the presentation of shared funds. The following accounts are used in these financial statements to present the Department's portion of shared funds:

Unexpended Appropriations

This "asset" account represents lapse period expenditure transactions processed by the State Comptroller's Office after June 30 annually in accordance with the Statewide Accounting Management System (SAMS) records plus any liabilities relating to obligations re-appropriated to the subsequent fiscal year and voucher, interfund payment and mandatory SAMS transfers transactions held by the State Comptroller's Office at June 30.

Appropriations from State Resources

This "other financing source" account represents the final legally adopted appropriation according to SAMS records.

Lapsed Appropriations

Lapsed appropriations are the legally adopted appropriations less net warrants issued for the 14-month period from July to August of the following year and re-appropriations to subsequent years according to SAMS records. In fiscal year 2020, the lapse period was extended through September.

STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2020

(2) **Summary of Significant Accounting Policies (Continued)**

(d) ***Shared Fund Presentation (Continued)***

Receipts Collected and Transmitted to State Treasury

This “other financing use” account represents all cash receipts received during the fiscal year from SAMS records.

Amount of SAMS Transfers-In

This “other financing use” account represents all cash receipts received during the fiscal year from SAMS records.

(e) ***Eliminations***

Eliminations have been made in the government-wide statement of net position to minimize the “grossing-up” effect on assets and liabilities within the governmental activity’s column of the Department. As a result, amounts reported in the governmental funds balance sheet as interdepartmental inter-fund receivables and payables have been eliminated in the government-wide statement of net position. Amounts reported in the governmental funds balance sheet and proprietary statement of net position as receivable from or payable to fiduciary funds have been included in the government-wide statement of net position as receivable from and payable to external parties, rather than as internal balances. Eliminations have also been made in the government-wide statement of activities to remove the “doubling-up” effect on revenues and expenses of Department internal service fund activity.

(f) ***Cash and Cash Equivalents***

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

(g) ***Inventories***

Inventories of the State Garage Revolving Fund, consisting primarily of automotive parts, accessories, and supplies, are valued at cost, principally on the weighted average method.

(h) ***Inter-fund Transactions***

The Department has the following types of inter-fund transactions between Department funds and funds of other State agencies:

***Services provided and used***—sales and purchases of goods and services between funds for a price approximating their external exchange value. Inter-fund services provided and used are reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as inter-fund receivables and payables in the governmental funds balance sheet or the government-wide and proprietary fund statements of net position.

***Reimbursements***—repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursements are reported as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.

STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2020

**(2) Summary of Significant Accounting Policies (Continued)**

**(h) Inter-fund Transactions (Continued)**

**Transfers**—flows of assets (such as cash or goods) without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the funds making transfers and as other financing sources in the funds receiving transfers. In proprietary funds, transfers are reported after non-operating revenues and expenses.

The Department also has activity with various component units of the State of Illinois for professional services rendered and on-behalf employee benefits paid.

**(i) Capital Assets**

Capital assets, which consist of equipment, automobiles, and real property, are reported at cost or estimated historical cost based on appraisals. Contributed assets are reported at acquisition value at the time received. Capital assets are depreciated using the straight-line method.

Capitalization thresholds and the estimated useful lives are as follows:

Capital Asset Category	Capitalization Threshold	Estimated Useful Life
Land	\$100,000	N/A
Land Improvements	25,000	N/A
Buildings	100,000	10-60
Building Improvements	25,000	10-45
Site Improvements	25,000	20
Equipment	5,000	3-25

The Department does not capitalize its collections of works of art or historical treasures held for public exhibition, education, or research in furtherance of public service rather than capital gain. The collections are protected, kept unencumbered, cared for, and preserved. Proceeds from the sale, exchange, or other disposal of any item belonging to non-capitalized collections of works of art or historical treasures for the Department must be applied to the acquisition of additional items for the same collection.

STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2020

**(2) Summary of Significant Accounting Policies (Continued)**

**(j) Compensated Absences**

The liability for compensated absences reported in the government-wide, proprietary and fiduciary fund financial statements consists of unpaid, accumulated vacation and sick leave balances for Department employees. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. 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 taxes).

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.

**(k) Pensions**

In accordance with the Department's adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, the net pension liability, deferred outflows of resources, deferred inflows of resources, appropriations from State resources, and pension expense have been recognized in the government-wide financial statements.

The net pension liability is calculated as the difference between the actuarially calculated value of the projected benefit payments attributed to past periods of service and the plans' fiduciary net position. The total pension expense is comprised of the service cost or actuarial present value of projected benefit payments attributed to the valuation year, interest on the total pension liability, plan administrative expenses, current year benefit changes, and other changes in plan fiduciary net position less employee contributions and projected earnings on plan investments. Additionally, the total pension expense includes the annual recognition of outflows and inflows of resources due to pension assets and liabilities. Pension payments made on-behalf of the Department are recognized in governmental funds in accordance with GASB 85, par 9.

For purposes of measuring the net pension liability, deferred outflows of resources, deferred inflows of resources, pension expense and expenditures associated with the Department's contribution requirements, information about the fiduciary net position of the plans and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported within the separately issued plan financial statements. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with terms of the plan. Investments are reported at fair value.

**(l) Post-Employment Benefits Other Than Pensions (OPEB)**

The State provides health, dental, vision and life insurance benefits for certain retirees and their dependents through the State Employees Group Insurance Program ("SEGIP"). The total OPEB liability, deferred outflows of resources, deferred inflows of resources, expense, and expenditures associated with the program have been determined through an actuarial valuation using certain actuarial assumptions as applicable to the current measurement period. See Note 9. The OPEB liabilities, deferred outflows of resources, deferred inflows of resources, and OPEB expense have been recognized in the government-wide financial statements.

STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2020

(2) **Summary of Significant Accounting Policies (Continued)**

(m) **Deferred Outflows/Inflows of Resources**

A deferred outflow/inflow of resources is a consumption/acquisition of net assets that is applicable to a future reporting period. The Department has recorded deferred outflows/inflows of resources in the government-wide financial statements in connection with the net pension liability and total OPEB liability reported and explained in Notes 8 and 9, respectively. In addition, the Department has recorded deferred inflows in the governmental funds financial statements in connection with unavailable revenues.

(n) **Fund Balances**

In the fund financial statements, governmental funds report fund balances in the following categories:

**Non-spendable-** This consists of amounts that cannot be spent because they are either a) not in spendable form or b) legally or contractually required to be maintained intact.

**Restricted-** This consists of amounts that are restricted to specific purposes, that is, when constraints placed on the use of resources are either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or b) imposed by law through constitutional provisions or enabling legislation.

**Committed-** This consists of amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Department's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the Department removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. The Department's highest level of decision-making authority rests with the Illinois State legislature and the Governor. The State passes "Public Acts", to commit their fund balances.

**Assigned-** This consists of net amounts that are constrained by the Department's intent to be used for specific purposes, but that are neither restricted nor committed.

**Unassigned-** This consists of residual fund balance that has not been restricted, committed, or assigned within the general fund and deficit fund balances of other governmental funds.

When both restricted and unrestricted (committed, assigned, and unassigned) resources are available for use, it is the Department's policy to use restricted resources first. When only unrestricted resources are available, the Department uses committed resources first, followed by assigned, and then unassigned.

(o) **Net Position**

In the government-wide, proprietary fund, and fiduciary fund financial statements, equity is displayed in three components as follows:

**Net Investment in Capital Assets** – This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

**Restricted** – This consists of amounts restricted for specific purposes, that is, containing constraints placed on the use of the resources either by an external party or by imposition of law through constitutional provisions or enabling legislation.

**Unrestricted** – This consists of net position that does not meet the definition of "restricted" or "net investment in capital assets."

STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2020

**(2) Summary of Significant Accounting Policies (Continued)**

**(p) Use of Estimates**

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

**(q) State Employees' Deferred Compensation Plan Administration**

By State statute the Department is responsible for administering the State Employees' Deferred Compensation Plan (Plan). The Department contracts with Invesco Ltd. for investment management services and T. Rowe Price Retirement Plan Services, Inc. to provide recordkeeping services for the Plan. Additional investment management fees are paid to mutual fund managers before any dividends are declared in accordance with customary industry practices. Asset charges intended to cover the costs of administration, including investment management and recordkeeping fees, are computed monthly and withdrawn from participants' accounts on a monthly or quarterly basis.

**(r) Health Benefits Claim Processing**

By State statute, the Department is responsible for administering the State's health benefit programs. The Department contracts with third party administrators to process health, dental, and prescription claims submitted by healthcare service providers relating to the applicable self-insured portions of the health benefit programs accounted for in the Local Government Health Insurance Reserve Fund, Teacher Health Insurance Security Fund, Community College Health Insurance Security Fund and Health Insurance Reserve Fund. It is the Department's policy to recognize claims expense and accrue any unpaid liability relating to claims incurred but not reported (IBNR) based on actuarial projections and reports of processed claims provided by the third-party administrators.

**(s) New Accounting Pronouncements**

Effective for the year ending June 30, 2020, the Department adopted the following GASB statements:

Statement No. 92, *Omnibus 2020*, which is intended to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit OPEB plan, the applicability of Statement No. 73 and Statement No. 74 to reporting assets accumulated for postemployment benefits, the applicability of Statement No. 84 to postemployment benefit arrangements, measurement of liabilities and assets related to asset retirement obligations in a government acquisition, and reference to nonrecurring fair value measurements of assets and liabilities in authoritative literature. The topics within this Statement that were not effective for the Department's fiscal year ended June 30, 2020 were, upon the Department's adoption of GASB Statement No. 95, delayed for the Department until the fiscal year ended June 30, 2022.

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**(2) Summary of Significant Accounting Policies (Continued)**

**(s) New Accounting Pronouncements (Continued)**

Statement 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – An Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32*, which is intended to (1) increase consistency and comparability related to the reporting of fiduciary component units when a potential component unit does not have a governing board and the primary government performs those duties; (2) mitigate costs associated with reporting; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans. The topics within this Statement that were not effective for the Department's fiscal year ended June 30, 2020 are effective for the Department's fiscal year ended June 30, 2022.

**(t) Future Adoption of GASB Statements**

Effective for the year ending June 30, 2021, the Department will adopt the following GASB Statements:

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. In addition, this statement 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.

Statement No. 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61*, is intended to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units.

Statement No. 93, *Replacement of Interbank Offered Rates*, the primary provision of which is intended to address accounting and financial reporting implications that result from the replacement of an interbank offered rate as an appropriate benchmark interest rate.

Effective for the year ending June 30, 2022, the Department will adopt the following GASB statements:

Statement No. 87, *Leases*, which is intended to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources and or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.

Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, which is intended to (1) enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

Effective for the year ending June 30, 2023, the Department will adopt the following GASB statements:

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**(2) Summary of Significant Accounting Policies (Continued)**

**(t) Future Adoption of GASB Statements (Continued)**

Statement No. 91, *Conduit Debt Obligations*, which is intended to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures.

Statement No. 94, *Public-Private and Public-Public Partnerships and Available Payment Arrangements*, which is intended to improve financial reporting by addressing issues related to public-private and public-public partnerships (PPPs). This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs).

Statement No. 96, *Subscription-Based Information Technology Arrangements*, which is intended to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments).

The Department has not yet determined the impact of adopting these statements on its financial statements.

**(3) 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 investment authority and guidelines for the Treasurer's published investment policy found in Section 22.8 of the Deposit of State Moneys Act (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 is available within the State of Illinois' Comprehensive Annual Financial Report.

Funds maintained outside the State Treasury have independent statutory authority to manage their own deposits and investments. The investment authority of the Illinois State Board of Investments ("ISBI") is governed by the Illinois Pension Code (40 ILCS 5). ISBI has published investment policies incorporating these guidelines.

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**(3) Deposits and Investments (Continued)**

**(b) Investments**

The Department's investments consist of amounts held by trustees and third party administrators in accordance with debt covenants; tax-free payments of eligible medical and dental expenses, tax-free payments of qualified transportation and/or commuting expenses, and tax-free payments of eligible child and/or adult day care costs; and amounts held as part of the State's employee retirement savings plan in accordance with Section 457 of the Internal Revenue Code. The investments held for the State's Section 457 plan are held in mutual funds, annuities, investment contracts and equity trust funds, which are selected by the Illinois State Board of Investments 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.

As of June 30, 2020, the Department had the following fixed income investments outside of the State Treasury.

	<b>Book Value (Thousands)</b>	<b>Fair Value (Thousands)</b>	<b>Weighted Average Maturity (Years)</b>
<b>Governmental activities:</b>			
Public Treasurer's Investment Pool	\$ 83,174	\$ 83,174	0.194
Total fixed income investments	<u>\$ 83,174</u>	<u>\$ 83,174</u>	
<b>Fiduciary funds:</b>			
Money market mutual funds	\$ 104,150	\$ 104,150	0.156
Debt mutual funds	154,127	154,127	8.100
Public Treasurer's Investment Pool	<u>14,089</u>	<u>14,089</u>	0.194
Total fixed income investments	<u>\$ 272,366</u>	<u>\$ 272,366</u>	
<b>Business-type activities:</b>			
Public Treasurer's Investment Pool	\$ 1,972	\$ 1,972	0.194
Total fixed income investments	<u>\$ 1,972</u>	<u>\$ 1,972</u>	

**Interest Rate Risk:** 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:** The Department does not have a formal investment policy that limits investment choices. The Governmental Activities money market mutual funds were rated AAAM by Standard and Poor's. The Fiduciary Funds money market mutual funds were unrated. The Fiduciary Funds debt mutual funds ratings ranged between BBB and AAA by Standard and Poor's.

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**(3) Deposits and Investments (Continued)**

**(b) Investments (Continued)**

Custodial Credit Risk: The Department does not have a formal investment policy which restricts investments to address custodial credit risk. Custodial credit risk is the risk that, in the event of failure of the counterparty to a transaction, the Department would not be able to recover the value of investment or collateral securities in the possession of an outside party. The Department has no investments subject to custodial credit risk.

**(c) Reconciliation to Statement of Net Position and Statement of Fiduciary Net Position**

The Statement of Net Position and Statement of Fiduciary Net Position cash and cash equivalents contain certain short-term investments (included as investments above) to reflect their liquidity. A reconciliation (amounts expressed in thousands) follows:

	<u>Deposits</u>	<u>Investments</u>
<b>Governmental activities</b>		
Amounts Per Note 3(a) & (b)	\$ -	\$ 83,174
Cash equivalents	<u>83,174</u>	<u>(83,174)</u>
<b>Amounts per Statement of Net Position</b>	<u>\$ 83,174</u>	<u>\$ -</u>
<b>Fiduciary funds</b>		
Amounts Per Note 3(a) & (b)	\$ -	\$ 272,366
Cash equivalents	118,239	(118,239)
Blended trust funds	-	2,654,482
Equity trust funds	-	1,160,673
Guaranteed investment contracts	<u>-</u>	<u>638,480</u>
<b>Amounts per Statement of Fiduciary Net Position</b>	<u>\$ 118,239</u>	<u>\$ 4,607,762</u>
<b>Business-type activities</b>		
Amounts Per Note 3(b)	\$ -	\$ 1,972
Cash equivalents	<u>1,972</u>	<u>(1,972)</u>
<b>Amounts per Statement of Net Position</b>	<u>\$ 1,972</u>	<u>\$ -</u>

**(d) Fair Value Hierarchy**

The Department categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

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**(3) Deposits and Investments (Continued)**

**(d) Fair Value Hierarchy (Continued)**

	Fair Value	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Money market mutual funds	\$ 104,150	\$ 104,150	\$ -	\$ -
Debt mutual funds	154,127	154,127	-	-
Blended trust funds	2,654,482	2,654,482	-	-
Equity trust funds	1,160,673	1,160,673	-	-
Guaranteed investment contracts	638,480	638,480	-	-
Total	\$ 4,711,912	\$4,711,912	\$ -	\$ -

\*Note: Guaranteed investment contracts of \$638,480 are reported at contract value per the requirements of GASB Statement No. 72.

**(e) 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 AG to lend the State Treasurer's securities to broker-dealers and banks pursuant to a form of loan agreement.

During Fiscal Year 2020, Deutsche Bank AG lent U.S. Agency securities and U.S. Treasury 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 aggregate fair value of the loaned securities. Loans are marked to market daily. If the fair value of collateral falls below 100%, the borrower must provide additional collateral to raise the fair value to 100%.

The State Treasurer did not impose any restrictions during Fiscal Year 2020 on the amount of loans of available, eligible securities. In the event of borrower default, Deutsche Bank AG provides the State Treasurer with counterparty default indemnification. In addition, Deutsche Bank AG is obligated to indemnify the State Treasurer if Deutsche Bank AG loses any securities, collateral or investments of the State Treasurer in Deutsche Bank AG's custody. There were no losses during Fiscal Year 2020 resulting from a default of the borrowers or Deutsche Bank AG.

During Fiscal Year 2020, 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 Deutsche Bank AG 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 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 received that was invested in repurchase agreements and the fair value of securities on loan for the State Treasurer of June 30, 2020 were \$4,344,267,500 and \$4,290,619,359, respectively.

In accordance with GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, paragraph 9, the Office of the State Treasurer has allocated the assets and obligations at June 30, 2020 arising from securities lending agreements to the various funds of the State. The total allocated to the Agency at June 30, 2020 was \$28.353 million.

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**(4) Inter-fund Balances and Activity**

**(a) Balances Due to/from Other Funds**

The following balances (amounts expressed in thousands) at June 30, 2020 represent amounts due from other Department and State of Illinois funds.

Fund	Due from				Description/Purpose
	Other Department Funds	Other Department Fiduciary Funds	Other State Funds	Other State Fiduciary Funds	
General	\$ 2,343	\$ -	\$ -	\$ -	Due from other Department funds for internal service fund services provided and excess fund balance of the State Surplus Property Revolving Fund.
Internal service	1,144,690	20	724,023	68	Due from other Department funds, other Department fiduciary funds and other State funds for services provided.
Fiduciary	-	-	205,228	-	Due from other State funds for insurance benefits
	<u>\$ 1,147,033</u>	<u>\$ 20</u>	<u>\$ 929,251</u>	<u>\$ 68</u>	

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**(4) Inter-fund Balances and Activity (Continued)**

**(a) Balances Due to/from Other Funds (Continued)**

The following balances (amounts expressed in thousands) at June 30, 2020 represent amounts due to other Department and State of Illinois funds.

Fund	Due to			Description/Purpose
	Other Department Funds	Other State Funds	Other State Fiduciary Funds	
General	\$ 1,088,046	\$ 233,597	\$ -	Due to other Department funds for internal service fund services received including healthcare claims, other State funds for services received, and interfund borrowing.
Non-major governmental	54,527	168	-	Due to other Department funds for internal service fund services received including healthcare claims, other State funds for services received. Also, excess fund balance of the State Surplus Property Revolving Fund is due to the General Fund.
Internal service	4,457	4,366	1,547	Due to other Department funds for internal service fund services received and excess net position, other State funds for services received and other State fiduciary funds for retirement contributions.
Fiduciary	20	2,879	28	Due to other Department funds for internal service fund services received, other State funds for services received and other State fiduciary funds for retirement contributions.
Non-major enterprise	3	8	5	Due to other Department funds for internal service fund services received, other State funds for services received and other State fiduciary funds for retirement contributions.
	<u>\$ 1,147,053</u>	<u>\$ 241,018</u>	<u>\$ 1,580</u>	

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**(4) Inter-fund Balances and Activity (Continued)**

**(b) Transfers from/to Other Funds**

Inter-fund transfers in/out (amounts expressed in thousands) from/to other Department funds for the year ended June 30, 2020 were as follows:

Fund	<u>Transfers-in from Other Department Funds</u>	Description/Purpose
General	\$ 745	Excess cash
	\$ 745	
Fund	<u>Transfers-out to Other Department Funds</u>	Description/Purpose
Non-major governmental	\$ (745)	Excess cash
	\$ (745)	

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**(5) Capital Assets**

Capital asset activity (amounts expressed in thousands) for the year ended June 30, 2020 was as follows:

	<u>Balance June 30, 2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>Net Transfers</u>	<u>Balance June 30, 2020</u>
<b>Governmental activities:</b>					
Capital assets not being depreciated:					
Land and land improvements	\$ 38,749	\$ -	\$ 3,301	\$ 3,601	\$ 39,049
Nondepreciable historical treasures and works of art	4	-	-	-	4
Construction in progress	218	-	-	442	660
Total capital assets not being depreciated	<u>38,971</u>	<u>-</u>	<u>3,301</u>	<u>4,043</u>	<u>39,713</u>
Capital assets being depreciated:					
Site improvements	3,761	-	-	-	3,761
Buildings and building improvements	697,796	1,142	-	51,342	750,280
Equipment	59,912	13,208	34	(74)	73,012
Depreciable historical treasures and works of art	970	-	-	-	970
Total capital assets being depreciated	<u>762,439</u>	<u>14,350</u>	<u>34</u>	<u>51,268</u>	<u>828,023</u>
Less accumulated depreciation:					
Site improvements	3,750	6	-	-	3,756
Buildings and building improvements	570,282	26,659	-	38,423	635,364
Equipment	42,003	6,775	26	(57)	48,695
Depreciable historical treasures and works of art	970	-	-	-	970
Total accumulated depreciation	<u>617,005</u>	<u>33,440</u>	<u>26</u>	<u>38,366</u>	<u>688,785</u>
Total capital assets being depreciated, net	<u>145,434</u>	<u>(19,090)</u>	<u>8</u>	<u>12,902</u>	<u>139,238</u>
Governmental activity capital assets, net	<u>\$ 184,405</u>	<u>\$ (19,090)</u>	<u>\$ 3,309</u>	<u>\$ 16,945</u>	<u>\$ 178,951</u>

Depreciation expense for governmental activities (amounts expressed in thousands) for the year ended June 30, 2020 was charged to functions as follows:

Governmental activities – General Government     \$ 33,440

The carrying amount of idled, impaired capital assets, included above as capital assets being depreciated at June 30, 2020, was \$12.288 million. During fiscal year 2020, the Department transferred in assets from other State of Illinois agencies which, upon transfer, were impaired to their appraised value. The impairment to reduce the value of the transferred assets to their appraised value was recorded through a \$10.799 million increase in depreciation expense and \$3.301 million increase in other expenses for capital assets not being depreciated. In addition, the Department impaired other idled assets with prior period appraisals through a \$2.996 million increase in depreciation expense that had not been previously recorded. Other idled, impaired capital assets have not been subject to a formal valuation process to determine their fair value as of the date of this report.

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**(6) Long-Term Obligations**

Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2020 were as follows:

	<u>Balance June 30, 2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2020</u>	<u>Amounts Due Within One Year</u>
<b>Governmental activities:</b>					
Compensated absences	\$ 5,149	\$ 6,504	\$ 5,877	\$ 5,776	\$ 876
Capital lease obligations	-	-	-	-	-
Installment purchase obligations	-	-	-	-	-
Certificates of participation	-	-	-	-	-
Workers' compensation claim obligations	596,102	86,854	103,710	579,246	106,357
Auto liability claim obligations	7,410	51	1,257	6,204	1,751
Total OPEB liability	69,058	16,591	-	85,649	1,420
Net pension liability	82,245	9,292	-	91,537	-
<b>Total governmental activities</b>	<u>\$ 759,964</u>	<u>\$ 119,292</u>	<u>\$ 110,844</u>	<u>\$ 768,412</u>	<u>\$ 110,404</u>
<b>Business-type activities:</b>					
Compensated absences	\$ 34	\$ 37	\$ 51	\$ 20	\$ 8
<b>Total business-type activities</b>	<u>\$ 34</u>	<u>\$ 37</u>	<u>\$ 51</u>	<u>\$ 20</u>	<u>\$ 8</u>
<b>Fiduciary funds:</b>					
Compensated absences	\$ 194	\$ 162	\$ 200	\$ 156	\$ 31
<b>Total fiduciary funds</b>	<u>\$ 194</u>	<u>\$ 162</u>	<u>\$ 200</u>	<u>\$ 156</u>	<u>\$ 31</u>

Compensated absences will be liquidated by the applicable fund that accounts for the salaries and wages of the related employees.

**(7) Risk Management**

The Department administers the State of Illinois' risk management except for minimal commercial insurance purchased on certain capital assets by other State agencies and auto liability for the Department of Transportation. The State is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; workers compensation; auto liability exposure; and natural disasters. The State retains the risk of loss (i.e. self-insured) for these risks except minimal commercial insurance purchased on certain capital assets by other State agencies. There were no significant reductions in insurance coverage for the State from the prior fiscal year. The amount of settlements has not exceeded insurance coverage in the past three fiscal years for the State.

Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR). Claims liabilities are based upon the estimated ultimate cost of settling the claims including specific, incremental claim adjustment expenses, salvage, and subrogation and considering the effects of inflation and recent claim settlement trends including frequency and amount of payouts and other economic and social factors.

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**(7) Risk Management (Continued)**

The Department's risk financing of auto liability for the State's non-Department of Transportation liability, \$6.204 million, has been determined using an estimate of claims outstanding. Claims that will be due and payable have been recorded as a liability in the General Revenue Fund, a subaccount of the General Fund, in the amount of \$0.391 million. The remaining portion of the liability, \$5.813 million, as of June 30, 2020, is included in the Department-wide financial statements and is expected to be paid from future resources of the General Fund.

The Department's workers' compensation liability, \$579.246 million, is based on third-party actuarial estimates using information provided by the Department. The actuaries have used claims outstanding, a projection of claims to be submitted, payroll and headcount data combined with state benefit provisions. The projection is also based on actuarial assumptions predicting paid loss development, claim inflation, mortality, and other factors.

The Department administers the State of Illinois' risk management for employee health and dental insurance benefit programs of the State. The Health Insurance Reserve Fund, an internal service fund, is used to account for these benefit programs, which are partially self-funded. Employees of the State may obtain health care services through participation in the State's group health insurance plan or through membership in one of eight health maintenance organization plans under contract with the State. The State maintains the risk of insurance for employees who participate in the State's group health insurance plan. Expenses and liabilities for claims, which include incurred but not reported or not processed benefit claims, have been recorded as liabilities in the amount of \$284.873 million. Payments to the Health Insurance Reserve Fund are based on estimates of amounts needed to pay prior year unprocessed and current year claims.

The following is a reconciliation of the Department's claims liabilities for the years June 30, 2019 and June 30, 2020 (amounts expressed in thousands):

Year Ended June 30	Changes in Claims Liability Balances			
	Beginning Balance	Current Year Claims and Changes in Estimates	Claim Payments	Ending Balance
Primary Government-Governmental Activities:				
2019				
Auto Liability	\$ 5,335	\$ 3,256	\$ 1,181	\$ 7,410
Workers' Compensation	603,493	70,059	77,450	596,102
Active Employee Health				
Claims for Self-Insured Plans	649,209	838,348	887,891	599,666
Total:	<u>\$ 1,258,037</u>	<u>\$ 911,663</u>	<u>\$ 966,522</u>	<u>\$ 1,203,178</u>
2020				
Auto Liability	\$ 7,410	\$ 51	\$ 1,257	\$ 6,204
Workers' Compensation	596,102	86,854	103,710	579,246
Active Employee Health				
Claims for Self-Insured Plans	599,666	880,851	1,195,644	284,873
Total:	<u>\$ 1,203,178</u>	<u>\$ 967,756</u>	<u>\$ 1,300,611</u>	<u>\$ 870,323</u>

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**(8) Pension**

**Plan description.** Substantially all of the Department's full-time employees who are not eligible for participation in another state-sponsored retirement plan participate in the State Employees' Retirement System (SERS), which is a single-employer defined benefit pension trust fund in the State of Illinois reporting entity. SERS is governed by article 14 of the Illinois Pension Code (40 ILCS 5/1, et al.). The plan consists of two tiers of contribution requirements and benefit levels based on when an employee was hired. Members who first become an employee and participate under any of the State's retirement plans on or after January 1, 2011 are members of Tier 2, while Tier 1 consists of employees hired before January 1, 2011 or those who have service credit prior to January 1, 2011. The provisions below apply to both Tier 1 and 2 members, except where noted. The SERS issues a separate Comprehensive Annual Financial Report available at [www.srs.illinois.gov](http://www.srs.illinois.gov) or that may be obtained by writing to the SERS, 2101 South Veterans Parkway, PO Box 19255, Springfield, Illinois, 62794-9255.

**Benefit provisions.** SERS provides retirement benefits based on the member's final average compensation and the number of years of service credit that have been established. The retirement benefit formula available to general State employees that are covered under the Federal Social Security Act is 1.67% for each year of service and for noncovered employees it is 2.2% for each year of service. The maximum retirement annuity payable is 75% of final average compensation for regular employees and 80% for alternative formula employees. The minimum monthly retirement annuity payable is \$15 for each year of covered service and \$25 for each year of noncovered service.

Members in SERS under the Tier 1 and Tier 2 receive the following levels of benefits based on the respective age and years of service credits.

<b>Regular Formula Tier 1</b>	<b>Regular Formula Tier 2</b>
<p>A member must have a minimum of eight years of service credit and may retire at:</p> <ul style="list-style-type: none"> <li>• Age 60, with 8 years of service credit.</li> <li>• Any age, when the member's age (years &amp; whole months) plus years of service credit (years &amp; whole months) equal 85 years (1,020 months) (Rule of 85) with 8 years of credited service.</li> <li>• Between ages 55-60 with 25-30 years of service credit (reduced 1/2 of 1% for each month under age 60).</li> </ul> <p>The retirement benefit is based on final average compensation and credited service. Final average compensation is the 48 highest consecutive months of service within the last 120 months of service.</p> <p>Under the Rule of 85, a member is eligible for the first 3% increase on January 1 following the first full year of retirement, even if the member is not age 60. If the member retires at age 60 or older, he/she will receive a 3% pension increase every year on January 1, following the first full year of retirement.</p> <p>If the member retires before age 60 with a reduced retirement benefit, he/she will receive a 3% pension increase every January 1 after the member turns age 60 and has been retired at least one full year. These pension increases are not limited by the 75% maximum.</p>	<p>A member must have a minimum of 10 years of credited service and may retire at:</p> <ul style="list-style-type: none"> <li>• Age 67, with 10 years of credited service.</li> <li>• Between ages 62-67 with 10 years of credited service (reduced 1/2 of 1% for each month under age 67).</li> </ul> <p>The retirement benefit is based on final average compensation and credited service. For regular formula employees, final average compensation is the average of the 96 highest consecutive months of service within the last 120 months of service. The retirement benefit is calculated on a maximum salary of \$106,800. This amount increases annually by 3% or one-half of the Consumer Price Index, whichever is less.</p> <p>If the member retires at age 67 or older, he/she will receive a pension increase of 3% or one-half of the Consumer Price Index for the preceding calendar year, whichever is less, every year on January 1, following the first full year of retirement. The calendar year 2019 rate is \$114,952.</p> <p>If the member retires before age 67 with a reduced retirement benefit, he/she will receive a pension increase of 3% or one-half of the Consumer Price Index for the preceding calendar year, whichever is less, every January 1 after the member turns age 67 and has been retired at least one full year. These pension increases are not limited by the 75% maximum.</p>

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**(8) Pension (Continued)**

Additionally, the Plan provides an alternative retirement formula for State employees in high-risk jobs, such as State policemen, fire fighters, and security employees. Employees qualifying for benefits under the alternative formula may retire at an earlier age depending on membership in Tier 1 or Tier 2. The retirement formula is 2.5% for each year of covered service and 3.0% for each year of non-covered service. The maximum retirement annuity payable is 80% of final average compensation as calculated under the alternative formula.

SERS also provides occupational and nonoccupational (including temporary) disability benefits. To be eligible for nonoccupational (including temporary) disability benefits, an employee must have at least 18 months of credited service with the System. The nonoccupational (including temporary) disability benefit is equal to 50% of the monthly rate of compensation of the employee on the date of removal from the payroll. Occupational disability benefits are provided when the member becomes disabled as a direct result of injuries or diseases arising out of and in the course of State employment. The monthly benefit is equal to 75% of the monthly rate of compensation on the date of removal from the payroll. This benefit amount is reduced by Workers' Compensation or payments under the Occupational Diseases Act.

Occupational and nonoccupational death benefits are also available through the System. Certain nonoccupational death benefits vest after 18 months of credited service. Occupational death benefits are provided from the date of employment.

**Contributions.** Contribution requirements of active employees and the State are established in accordance with Chapter 40, section 5/14-133 of the Illinois Compiled Statutes. Member contributions are based on fixed percentages of covered payroll ranging between 4.00% and 12.50%. Employee contributions are fully refundable, without interest, upon withdrawal from State employment. Tier 1 members contribute based on total annual compensation. Tier 2 members contribute based on an annual compensation rate not to exceed \$106,800 with limitations for future years increased by the lesser of 3% or one-half of the annual percentage increase in the Consumer Price Index. For 2020, this amount was \$115,929.

The State is required to make payment for the required departmental employer contributions, all allowances, annuities, any benefits granted under Chapter 40, Article 5/14 of the ILCS and all administrative expenses of the System to the extent specified in the ILCS. State law provides that the employer contribution rate be determined based upon the results of each annual actuarial valuation.

For fiscal year 2020, the required employer contributions were computed in accordance with the State's funding plan. This funding legislation provides for a systematic 50-year funding plan with an ultimate goal to achieve 90% funding of the plan's liabilities. In addition, the funding plan provided for a 15-year phase-in period to allow the State to adapt to the increased financial commitment. Since the 15-year phase-in period ended June 30, 2010, the State's contribution will remain at a level percentage of payroll for the next 35 years until the 90% funded level is achieved. For fiscal year 2020, the employer contribution rate was 54.290%. The Department's contribution amount for fiscal year 2020 was \$1.205 million. In addition, the Department recorded \$3.024 million of revenue and expenditures in the General Revenue account of the General Fund to account for on-behalf payments to SERS for Department employees that were paid from statewide General Revenue Fund appropriations.

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(8) Pension (Continued)

**Pension liability, deferred outflows of resources, deferred inflows of resources and expense related to pensions.** At June 30, 2020, the Department reported a liability of \$91.537 million for its proportionate share of the State's net pension liability for SERS on the statement of net position. The net pension liability was measured as of June 30, 2019 (current year measurement date), and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Department's portion of the net pension liability was based on the Department's proportion of employer contributions relative to all employer contributions made to the plan during the year ended June 30, 2019. As of the current year measurement date of June 30, 2019, the Department's proportion was 0.2741%, which was an increase of 10.17% from its proportion measured as of the prior year measurement date of June 30, 2018.

For the year ended June 30, 2020, the Department recognized a reduction to pension expense of \$6.604 million. At June 30, 2020, the Department reported deferred outflows and deferred inflows of resources related to the pension liability, as of the measurement date of June 30, 2019, from the following sources (amounts expressed in thousands):

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ 1,145
Changes of assumptions	2,551	1,321
Net difference between projected and actual investment earnings on pension plan investments		134
Changes in proportion	31,312	99,582
Department contributions subsequent to the measurement date	4,229	-
<b>Total</b>	<b>\$ 38,092</b>	<b>\$ 102,182</b>

\$4.229 million reported as deferred outflows of resources related to pensions resulting from Department contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recorded through pension expense as follows (amounts expressed in thousands):

<b>Year ending June 30,</b>	<b>Amount</b>
2021	\$ (17,694)
2022	(34,850)
2023	(17,141)
2024	1,366
<b>Total</b>	<b>\$ (68,319)</b>

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**(8) Pension (Continued)**

**Actuarial methods and assumptions.** The total pension liability was determined by an actuarial valuation as of June 30, 2019, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 2.25%

Investment Rate of Return: 6.75%, net of pension plan investment expense, including inflation.

Projected salary increases: 2.75% - 7.17%, salary increase rates based on age related productivity and merit rates plus inflation.

Post-retirement benefit increases of 3.00%, compounded, for Tier 1 and the lesser of 3.00% or one-half of the annual increase in the Consumer Price Index for Tier 2.

Retirement Age: Experience-based table of rates specific to the type of eligibility condition. Table was last updated for the June 30, 2019 valuation pursuant to an experience study of the period July 1, 2015 – June 2018.

Mortality: Pub-2010 General and Public Safety Healthy Retiree mortality tables, sex distinct, with rates projected to 2018 generational mortality improvement factors were updated to projection scale MP-2018.

The actuarial assumptions used to calculate the total pension liability as of the current year measurement date are consistent with the actuarial assumptions used to calculate the total pension liability as of the prior year measurement date except for the following:

The rate of inflation decreased from 2.50% to 2.25%.

The investment rate of return decreased from 7.00% to 6.75%.

The projected salary increase range changed from 3.00% - 7.42% to 2.75% - 7.17%.

The retirement age experience study was updated to July 2015 – June 2018.

The mortality rate was updated from using the 105 percent of the RP 2014 Healthy Annuitant mortality table, sex distinct, with rates projected to 2015; generational mortality improvement factors were added.

The long-term expected real rate of return on pension plan investments is determined using the best estimates of geometric real rates of return for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. For each major asset class that is included in the pension plan's target asset allocation, calculated as of the measurement date of June 30, 2019, the best estimates of geometric real rates of return are summarized in the following table:

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(8) Pension (Continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	23%	4.8%
Developed Foreign Equity	13%	4.6%
Emerging Market Equity	8%	6.9%
Private Equity	7%	6.8%
Intermediate Investment Grade Bonds	14%	0.7%
Long-Term Government Bonds	4%	1.0%
TIPS	4%	0.8%
High Yield and Bank Loans	5%	2.7%
Opportunistic Debt	8%	4.2%
Emerging Market Debt	2%	2.7%
Real Estate	10.0%	4.4%
Infrastructure	2%	4.1%
Total	<u>100%</u>	

**Discount rate.** A discount rate of 6.47% was used to measure the total pension liability as of the measurement date of June 30, 2019 as compared to a discount rate of 6.81% used to measure the total pension liability as of the prior year measurement date. The June 30, 2019 single blended discount rate was based on the expected rate of return on pension plan investments of 6.75% and a municipal bond rate of 3.13%, based on an index of 20-year general obligation bonds with an average AA credit rating as published by the Federal Reserve. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that contributions will be made based on the statutorily required rates under Illinois law. Based on these assumptions, the pension plan's fiduciary net position and future contributions will be sufficient to finance the benefit payments through the year 2073. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2073, and the municipal bond rate was applied to all benefit payments after that date.

**Sensitivity of the net pension liability to changes in the discount rate.** The net pension liability for the plan was calculated using the stated discount rate, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate as shown below (amounts expressed in thousands):

	1% Decrease	Discount Rate 6.47%	1% Increase
Department's proportionate share of the net pension liability	\$110,703	\$91,537	\$75,779

**Payables to the pension plan.** At June 30, 2020, the Department reported a payable of \$0.034 million to SERS for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2020.

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**(9) Other Post-Employment Benefits**

**Plan description.** The State Employees Group Insurance Act of 1971 (“Act”), as amended, authorizes the Illinois State Employees Group Insurance Program (“SEGIP”) to provide health, dental, vision, and life insurance benefits for certain retirees and their dependents. Substantially all of the Department’s full-time employees are members of SEGIP. Members receiving monthly benefits from the General Assembly Retirement System (“GARS”), Judges Retirement System (“JRS”), State Employees’ Retirement System of Illinois (“SERS”), Teachers’ Retirement System (“TRS”), and State Universities Retirement System of Illinois (“SURS”) are eligible for these other post-employment benefits (“OPEB”). The eligibility provisions for each of the retirement systems are defined within Footnote 8. Certain TRS members eligible for coverage under SEGIP include: certified teachers employed by certain State agencies, executives employed by the Board of Education, regional superintendents, regional assistant superintendents, TRS employees and members with certain reciprocal service.

The Department of Central Management Services administers these benefits for annuitants with the assistance of the public retirement systems sponsored by the State (GARS, JRS, SERS, TRS and SURS). The State recognizes SEGIP OPEB benefits as a single-employer defined benefit plan. The plan does not issue a stand-alone financial report.

**Benefits provided.** The health, dental, and vision benefits provided to and contribution amounts required from annuitants are the result of collective bargaining between the State and the various unions representing the State’s and the university component units’ employees in accordance with limitations established in the Act. Therefore, the benefits provided and contribution amounts are subject to periodic change. Coverage through SEGIP becomes secondary to Medicare after Medicare eligibility has been reached. Members must enroll in Medicare Parts A and B to receive the subsidized SEGIP premium available to Medicare eligible participants. The Act requires the State to provide life insurance benefits for annuitants equal to their annual salary as of the last day of employment until age 60, at which time, the benefit amount becomes \$5,000.

**Funding policy and annual other postemployment benefit cost.** OPEB offered through SEGIP are financed through a combination of retiree premiums, State contributions and Federal government subsidies from the Medicare Part D program. Contributions are deposited in the Health Insurance Reserve Fund, which covers both active State employees and retirement members. Annuitants may be required to contribute towards health 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 Employee’s Retirement System do not contribute toward health 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 and vision benefits. All annuitants are required to pay for dental benefits regardless of retirement date. The Director of Central Management Services shall, on an annual basis, determine the amount the State shall contribute toward the basic program of group health benefits. State contributions are made primarily from the General Revenue Fund on a pay-as-you-go basis. No assets are accumulated or dedicated to funding the retiree health insurance benefit and a separate trust has not been established for the funding of OPEB.

For fiscal year 2020, the annual cost of the basic program of group health, dental, and vision benefits before the State’s contribution was \$11,681.04 (\$6,703.92 if Medicare eligible) if the annuitant chose benefits provided by a health maintenance organization and \$14,959.44 (\$5,592.24 if Medicare eligible) if the annuitant chose other benefits. The State is not required to fund the plan other than the pay-as-you-go amount necessary to provide the current benefits to retirees.

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(9) **Other Post-Employment Benefits (Continued)**

**Total OPEB liability, deferred outflows of resources, deferred inflows of resources and expense related to OPEB.** The total OPEB liability, as reported at June 30, 2020, was measured as of June 30, 2019, with an actuarial valuation as of June 30, 2018. At June 30, 2020, the Department recorded a liability of \$85.649 million for its proportionate share of the State's total OPEB liability. The Department's portion of the OPEB liability was based on the Department's proportion of employer contributions relative to all employer contributions made to the plan during the year ended June 30, 2019. As of the current year measurement date of June 30, 2019, the Department's proportion was 0.1951%, which was an increase of 13.30% from its proportion measured as of the prior year measurement date of June 30, 2018.

The Department recognized a reduction to OPEB expense for the year ended June 30, 2020 of \$11.577 million. At June 30, 2020, the Department reported deferred outflows and deferred inflows of resources, as of the measurement date of June 30, 2019, from the following sources (amounts expressed in thousands):

<b>Deferred outflows of resources</b>	
Differences between expected and actual experience	\$ 123
Changes of assumptions	2,978
Changes in proportion and differences between employer contributions and proportionate share of contributions	30,555
Department contributions subsequent to the measurement date	1,420
<b>Total deferred outflows of resources</b>	<u>\$ 35,076</u>
<b>Deferred inflows of resources</b>	
Differences between expected and actual experience	\$ 1,307
Changes of assumptions	5,285
Changes in proportion and differences between employer contributions and proportionate share of contributions	79,717
<b>Total deferred inflows of resources</b>	<u>\$ 86,309</u>

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**(9) Other Post-Employment Benefits (Continued)**

The amounts reported as deferred outflows of resources related to OPEB resulting from Department contributions subsequent to the measurement date will be recognized as a reduction to the OPEB liability in the year ended June 30, 2021. Other amounts reported as deferred outflows and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (amounts expressed in thousands):

<b>Year ended June 30,</b>		
2021	\$	(16,310)
2022		(16,310)
2023		(19,679)
2024		(752)
2025		398
Total	<u>\$</u>	<u>(52,653)</u>

**Actuarial methods and assumptions.** The total OPEB liability was determined by an actuarial valuation using the following actuarial assumptions, applied to all periods included in the measurement unless otherwise specified. The actuarial valuation for the SEGIP was based on GARS, JRS, SERS, TRS, and SURS active, inactive, and retiree data as of June 30, 2018, for eligible SEGIP employees, and SEGIP retiree data as of June 30, 2018.

<b>Valuation Date</b>	June 30, 2018
<b>Measurement Date</b>	June 30, 2019
<b>Actuarial Cost Method</b>	Entry Age Normal
<b>Inflation Rate</b>	2.50%
<b>Projected Salary Increases*</b>	2.75% - 12.25%
<b>Discount Rate</b>	3.13%
<b>Healthcare Cost Trend Rate:</b>	
Medical (Pre-Medicare)	8.00% grading down 0.50% in the first year to 7.50%, then grading down 0.11% in the second year to 7.39%, followed by grading down of 0.50% per year over 5 years to 4.89% in year 7
Medical (Post-Medicare)	9.00% grading down 0.50% per year over 9 years to 4.50%
Dental	6.00% grading down 0.50% per year over 3 years to 4.50%
<b>Retirees' share of benefit-related costs</b>	Healthcare premium rates for members depend on the date of retirement and the years of service earned at retirement. Members who retired before January 1, 1998, are eligible for single coverage at no cost to the member. Members who retire after January 1, 1998, are eligible for single coverage provided they pay a portion of the premium equal to 5 percent for each year of service under 20 years. Eligible dependents receive coverage provided they pay 100 percent of the required dependent premium. Premiums for plan year 2019 and 2020 are based on actual premiums. Premiums after 2020 were projected based on the same healthcare cost trend rates applied to per capita claim costs but excluding the additional trend rate that estimates the impact of the Excise Tax.
* Dependent upon service and participation in the respective retirement systems. Includes inflation rate listed.	

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**(9) Other Post-Employment Benefits (Continued)**

Since the last measurement date on June 30, 2019, the State has not made any significant changes to the benefit terms affecting the measurement of the collective total OPEB liability. On December 20, 2019, the *Further Consolidated Appropriations Act, 2020* (Public Law 116-94) was signed into law repealing the federal excise taxes of 40% on total employer premium spending in excess of specified dollar amounts, also known as the "Cadillac Tax." The impact of this repeal to the State's financial statements, which could be significant, is not known at this time.

Additionally, the demographic assumptions used in the OPEB valuation are identical to those used in the June 30, 2018 valuations for GARS, JRS, SERS, TRS, and SURS as follows:

	<u>Retirement age experience study<sup>^</sup></u>	<u>Mortality<sup>^^</sup></u>
<b>GARS</b>	July 2012 - June 2015	RP-2014 White Collar Total Healthy Annuitant mortality table, sex distinct, set forward 1 year for males and set back 1 year for females and generational mortality improvements using MP-2014 two-dimensional mortality improvement scales
<b>JRS</b>	July 2012 - June 2015	RP-2014 White Collar Total Healthy Annuitant mortality table, sex distinct, set forward 1 year for males and set back 1 year for females and generational mortality improvements using MP-2014 two-dimensional mortality improvement scales
<b>SERS</b>	July 2012 - June 2015	105 percent of the RP 2014 Healthy Annuitant mortality table, sex distinct, with rates projected to 2015; generational mortality improvement factors were added
<b>TRS</b>	July 2014 - June 2017	RP-2014 with future mortality improvements on a fully generational basis using projection table MP-2017
<b>SURS</b>	July 2014 - June 2017	RP-2014 White Collar, gender distinct, projected using MP-2014 two dimensional mortality improvement scale, set forward one year for male and female annuitants

<sup>^</sup> The actuarial assumptions used in the respective actuarial valuations are based on the results of actuarial experience studies for the periods defined. A modified experience review was completed for SERS for the 3-year period ending June 30, 2015. Changes were made to the assumptions regarding investment rate of return, projected salary increases, inflation rate, and mortality based on this review. All other assumptions remained unchanged.

<sup>^^</sup> Mortality rates are based on mortality tables published by the Society of Actuaries' Retirement Plans Experience Committee.

**Discount rate.** Retirees contribute a percentage of the premium rate based on service at retirement. The State contributes additional amounts to cover claims and expenses in excess of retiree contributions. Because plan benefits are financed on a pay-as-you-go basis, the single discount rate is based on a tax-exempt municipal bond rate index of 20-year general obligation bonds with an average AA credit rating as of the measurement date. A single discount rate of 3.62% at June 30, 2018, and 3.13% at June 30, 2019, was used to measure the total OPEB liability.

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**(9) Other Post-Employment Benefits (Continued)**

**Sensitivity of total OPEB liability to changes in the single discount rate.** The following presents the plan's total OPEB liability, calculated using a Single Discount Rate of 3.13%, as well as what the plan's total OPEB liability would be if it were calculated using a Single Discount rate that is one percentage point higher (4.13%) or lower (2.13%) than the current rate (amounts expressed in thousands):

	<u>1% Decrease (2.13%)</u>	<u>Current Single Discount Rate Assumption (3.13%)</u>	<u>1% Increase (4.13%)</u>
Department's proportionate share of total OPEB liability	100,875	85,649	73,471

**Sensitivity of the total OPEB liability to changes in the healthcare cost trend rate.** The following presents the plans total OPEB liability, calculated using the healthcare cost trend rates as well as what the plan's total OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point higher or lower, than the current healthcare cost trend rates (amounts in table expressed in thousands). The key trend rates are 8.0% in 2020 decreasing to an ultimate trend rate of 4.89% in 2027, for non-Medicare coverage, and 9.0% decreasing to an ultimate trend rate of 4.5% in 2029 for Medicare coverage.

	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rates Assumption</u>	<u>1% Increase</u>
Department's proportionate share of total OPEB liability	71,817	85,649	103,564

**(10) Commitments and Contingencies**

**(a) Operating leases**

The Department leases parking lots, warehouses, and buildings, under the terms of non-cancelable operating lease agreements that require the Department to make minimum lease payments plus pay a pro rata share of certain operating costs. Rent expense under operating leases was \$79.517 million for the year ended June 30, 2020.

The following is a schedule of future minimum lease payments under the operating lease (amounts expressed in thousands):

<u>Year Ending June 30</u>	<u>Total</u>
2021	\$ 57,955
2022	36,449
2023	25,901
2024	13,079
2025	2,602
	<u>\$ 135,986</u>

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**(10) Commitments and Contingencies (Continued)**

***(b) Ordered Vehicles and Equipment***

The Department ordered \$6.058 million of vehicles prior to June 30, 2020. The State Garage Revolving Fund (Fund 303) will record an expense for the vehicles when received by the Department. In addition, the Department ordered \$26 thousand of information technology equipment prior to June 30, 2020. The General Fund, State Garage Revolving Fund (Fund 0303), Facilities Management Revolving Fund (Fund 0314) and Professional Services Fund (Fund 0317) will record expenses for the equipment when received by the Department.

***(c) Litigation***

The Department is routinely involved in a number of legal proceedings and claims that cover a wide range of matters. In the opinion of management, the outcome of these matters is not expected to have any material adverse effect on the financial position or results of operations of the Department.

**(11) Local Government Health Insurance Fund Risk Pool Disclosure**

The Local Government Health Insurance Reserve Fund (LGHIRF) was established to provide health and dental insurance to participating local government entities. Financial statements for the LGHIRF may be obtained from the Department. As of June 30, 2020, there were approximately 2,031 employees, 1,551 dependents and 108 retirees covered. Each participating local governmental unit is required to enter into written agreement with the Department. The agreement sets forth the responsibilities of both parties. The Department issues a publicly available financial report that includes financial statements and required information for LGHIRF. The financial report may be obtained from the Department of Central Management Services, 704 Stratton Office Building, Springfield, Illinois, 62706.

The responsibilities required of the Department are:

- Setting and adjusting premium rates
- Billing and collecting monthly premiums from local governmental units
- Enrollment and termination of members and dependents after notification by the local governmental unit
- Establishment of a Local Government Health Plan Advisory Board, consisting of seven advisors from the participating local governmental units
- Establishment of the Local Government Health Insurance Reserve Fund
- Processing and paying authorized claims

The responsibilities required of the local government units are:

- Enrollment of all employees and dependents that meet eligibility guidelines and who elect to participate
- Collection and transmission of monthly member and dependent premiums
- Designation of a Health Plan Representative
- Participation in the program for a minimum of two years

The LGHIRF had previously contracted with third-party reinsurers for reinsurance coverage. However, no such coverage was in place for the year ended June 30, 2020.

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**(11) Local Government Health Insurance Fund Risk Pool Disclosure (Continued)**

The basis used in calculating the estimated liability for the future claims is based on claims reported but not paid during the fiscal year plus an estimate of claims incurred but not reported (IBNR). The estimate for claims incurred but not reported was calculated using a factor based on historical experience stated as a percentage of claims reported vs. total claims incurred during the policy cycle. For the year ended June 30, 2020, all claims are paid on a two-year claim cycle.

Based on the above method, the liability for future claims (amount expressed in thousands) at June 30, 2020 is as follows:

Claims incurred and reported but not paid as of June 30	\$ 2,279
Estimated liability for claims incurred but not reported	<u>1,340</u>
Total estimated liability for future claims	<u>\$ 3,619</u>

A reconciliation of total benefit payments and refunds including claims adjustment expense is as follows (amount expressed in thousands):

	<u>2019</u>	<u>2020</u>
Payments made for benefit claims	\$45,587	\$35,077
Less: liability for unpaid claims, beginning of year	<u>7,750</u>	<u>4,608</u>
Subtotal	37,837	30,469
Add: liability for unpaid claims, end of year	<u>4,608</u>	<u>3,619</u>
Total benefit claim payments and refunds	<u>\$42,445</u>	<u>\$34,088</u>

**(12) Other Post-Employment Benefit Plans**

The Department administrators, along with the retirement systems listed below, two funds which account for cost-sharing, multiple-employer defined benefit postemployment benefit plans (other than pension plans) for non-State employees.

For both plans, plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and when 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 each plan.

The Department issues a publicly available financial report that includes financial statements and required supplementary information for each plan. The financial reports may be obtained from the Department of Central Management Services, 704 Stratton Office Building, Springfield, Illinois, 62706.

**(a) Teacher Retirement Insurance Plan (TRIP)**

The TRIP is accounted for in the Teacher Health Insurance Security Fund which was established to provide health insurance for the Illinois Teachers' Retirement System (TRS) annuitants and dependent beneficiaries. As of June 30, 2020, there were 979 school districts participating with approximately 261,614 plan members. The Department works in conjunction with the Illinois Teachers' Retirement System to administer the TRIP.

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**(12) Other Post-Employment Benefit Plans (Continued)**

**(a) Teacher Retirement Insurance Plan (TRIP) (Continued)**

The responsibilities required of the Department are:

- Setting and adjusting premium rates
- Establishment of the Teacher Health Insurance Security Fund
- Processing and payment of authorized claims
- Other matters noted in the administration of the fund

The responsibilities required of the TRS are:

- Enrollment of annuitants and dependent that meet eligibility guidelines and who elect to participate
- Termination of membership for annuitants and dependents
- Collection and transmission of monthly annuitant and dependent premiums
- Collection and transmission of 1.24 percent contribution from active teachers and 0.92 percent contributions from school districts for program funding purposes

**(b) Community College Insurance Plan (CCIP)**

The CCIP is accounted for in the Community College Health Insurance Security Fund which was established to provide health and dental insurance for the Illinois community college retirees and dependent beneficiaries. As of June 30, 2020, there were 38 community colleges and 1 community college association participating with approximately 32,605 plan members. The Department works in conjunction with the State Universities Retirement Systems (SURS) to administer the CCIP.

The responsibilities required of the Department are:

- Setting and adjusting premium rates
- Establishment of the Community College Health Insurance Security Fund
- Processing and payment of authorized claims
- Other matters noted in the administration of the fund

The responsibilities required of the SURS are:

- Enrollment of annuitants and dependents that meet eligibility guidelines and who elect to participate
- Termination of membership for annuitants and dependents
- Collection and transmission of monthly annuitant and dependent premiums
- Collection and transmission of 0.5 percent contributions from active community college employees and community college districts for program funding purposes

**(13) State Employees' Deferred Compensation Plan General Description**

Under State Employees' Deferred Compensation Plan (Plan) provisions, all State employees are eligible to voluntarily elect to contribute a portion of their compensation to the Plan through payroll deduction. The Plan was created in accordance with the Illinois Compiled Statutes (40 ILCS 5/24-101) and Section 457 of the Internal Revenue Code. The financial position and results of operations of the Plan for fiscal year 2020 are included in the State's Comprehensive Annual Financial Report for the year ended June 30, 2020. The Plan issues separate financial statements on a calendar year basis that may be obtained by writing to the Deferred Compensation Plan, 201 E. Madison, Suite 1C, P.O. Box 19208, Springfield, Illinois 62794-9208.

STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2020

**(13) State Employees' Deferred Compensation Plan General Description (Continued)**

The following description of the Plan is only general information. Participants and other interested parties should refer to the Plan agreement for a complete description of all Plan provisions.

Federal law requires the assets of the Plan and the income earned thereon to be held in trust for the exclusive benefit of the Plan participants and their beneficiaries. Participants' rights under the Plan are limited to an amount equal to the fair value of the deferral account for each individual participant.

In compliance with Section 457 of the Internal Revenue Code, the Plan limits the amount of an individual's annual contribution to 100 percent of their annual taxable compensation, not to exceed \$19,500 for calendar year 2020 and \$19,000 for calendar year 2019. The State does not make any contributions to the Plan. 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 \$39,000 for calendar year 2020 and \$38,000 for calendar year 2019.

Participants may withdraw the current value of funds contributed thirty days after termination of employment with the State of Illinois. Loans of up to 50% of a participant's balance or \$50,000, whichever is less, are available. These loans are repaid to the participant's account. Withdrawals 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 or periodic payments. The participants may also elect to delay the distribution of their accounts to a specific future date but are required by the IRS to begin taking minimum distributions the year in which they turn 70 1/2. Death beneficiaries may select similar payment options as retired employees. All investments are assets of the Plan until such time as payments are made to participants.

**(14) Coronavirus Pandemic Implications**

In December 2019, a novel strain of coronavirus surfaced and spread around the world, resulting in business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. The United States and the State of Illinois declared a state of emergency in March 2020. The June 30, 2020 financial statements reflect the known financial impact of the COVID-19 outbreak and related stay at home orders for fiscal year 2020. The Department anticipates continued impact to its financial position and continues to monitor and evaluate the situation. The extent to which the coronavirus may impact financial activity will depend on future developments, which are highly uncertain and cannot be predicted. New information continues to emerge concerning the severity of the coronavirus and the actions required to contain or treat it, potentially impacting operations and program management.

**(15) Subsequent Events**

Public Act 101-0636 requires after sufficient moneys have been received in the State Surplus Property Revolving Fund (Fund 903) to pay all Fiscal Year 2020 obligations payable from Fund 903, the remaining balance in Fund 903 shall be transferred into the General Revenue Fund with any future deposits due to Fund 903, and any outstanding obligations or liabilities of Fund 903 passing to the General Revenue Fund. On October 1, 2020 the remaining balance in Fund 903 of \$855 thousand was transferred to the General Revenue Fund and Fund 903 was dissolved.

## SUPPLEMENTARY INFORMATION

**State of Illinois**  
**Department of Central Management Services**

**Combining Balance Sheet - Nonmajor Governmental Funds**

June 30, 2020 (Expressed in Thousands)

	Special Revenue		Total
	Road 0011	State Surplus Property Revolving 0903	Total
<b>ASSETS</b>			
Cash equity with State Treasurer	\$ -	\$ 1,129	\$ 1,129
Receivables, net:			
Other	-	2	2
<b>Total assets</b>	<b>\$ -</b>	<b>\$ 1,131</b>	<b>\$ 1,131</b>
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities	\$ -	\$ 12	\$ 12
Due to other Department funds	53,576	951	54,527
Due to other State funds	-	168	168
<b>Total liabilities</b>	<b>53,576</b>	<b>1,131</b>	<b>54,707</b>
<b>FUND BALANCES (DEFICITS)</b>			
Unassigned	(53,576)	-	(53,576)
Total fund balances (deficits)	(53,576)	-	(53,576)
<b>Total liabilities and fund balances (deficits)</b>	<b>\$ -</b>	<b>\$ 1,131</b>	<b>\$ 1,131</b>

**State of Illinois**  
**Department of Central Management Services**

**Combining Schedule of Revenues, Expenditures and Changes  
in Fund Balances - Nonmajor Governmental Funds**

For the Year Ended June 30, 2020 (Expressed in Thousands)

	Special Revenue		Total
	Road 0011	State Surplus Property Revolving	Total
		0903	
<b>REVENUES</b>			
Other revenues	\$ 833	\$ 1,818	\$ 2,651
Federal operating revenues	-	1,015	1,015
Other charges for services	-	84	84
<b>Total revenues</b>	<b>833</b>	<b>2,917</b>	<b>3,750</b>
<b>EXPENDITURES</b>			
General government	-	3,172	3,172
Transportation	143,312	-	143,312
<b>Total expenditures</b>	<b>143,312</b>	<b>3,172</b>	<b>146,484</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>(142,479)</b>	<b>(255)</b>	<b>(142,734)</b>
<b>OTHER SOURCES (USES) OF FINANCIAL RESOURCES</b>			
Appropriations from State resources	161,533	-	161,533
Receipts collected and transmitted to State Treasury	(903)	-	(903)
Transfers-out	-	(745)	(745)
<b>Net other sources (uses) of financial resources</b>	<b>160,630</b>	<b>(745)</b>	<b>159,885</b>
<b>Net change in fund balances</b>	<b>18,151</b>	<b>(1,000)</b>	<b>17,151</b>
Fund balances, July 1, 2019	(71,727)	1,000	(70,727)
<b>Fund Balances, June 30, 2020</b>	<b>\$ (53,576)</b>	<b>\$ -</b>	<b>\$ (53,576)</b>

**State of Illinois**  
**Department of Central Management Services**

**Combining Statement of Net Position**

**Internal Service Funds**

June 30, 2020 (Expressed in Thousands)

	State Garage Revolving 0303	Facilities Management Revolving 0314	Professional Services 0317	Workers' Compensation Revolving 0332	Health Insurance Reserve 0907	Group Life Insurance Premium 1457	Total
<b>ASSETS</b>							
Cash equity with State Treasurer	\$ 2,048	\$ 8,603	\$ 2,033	\$ 11,474	\$ 23,111	\$ -	\$ 47,269
Cash and cash equivalents	-	-	-	7,298	75,876	-	83,174
Securities lending collateral equity of State Treasurer	-	2,265	983	2,918	10,705	-	16,871
Receivables, net:							
Intergovernmental	8	-	-	-	5,522	-	5,530
Other	4	5	2	7	21,816	4,296	26,130
Due from other Department fiduciary funds	-	7	-	-	13	-	20
Due from other State fiduciary funds	2	-	-	-	66	-	68
Due from other Department funds	237	35,140	-	982	1,108,327	4	1,144,690
Due from other State funds	23,266	88,422	41,241	560,403	10,506	185	724,023
Due from State of Illinois component units	-	23	-	-	10,783	274	11,080
Inventories	1,887	-	-	-	-	-	1,887
Prepaid expenses	-	-	-	-	40,310	-	40,310
<b>Total current assets</b>	<b>27,452</b>	<b>134,465</b>	<b>44,259</b>	<b>583,082</b>	<b>1,307,035</b>	<b>4,759</b>	<b>2,101,052</b>
Capital assets not being depreciated	-	38,838	-	-	-	-	38,838
Capital assets being depreciated, net	23,881	102,997	358	-	-	-	127,236
<b>Total noncurrent assets</b>	<b>23,881</b>	<b>141,835</b>	<b>358</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>166,074</b>
<b>Total assets</b>	<b>51,333</b>	<b>276,300</b>	<b>44,617</b>	<b>583,082</b>	<b>1,307,035</b>	<b>4,759</b>	<b>2,267,126</b>
<b>LIABILITIES</b>							
Accounts payable and accrued liabilities	6,305	28,185	2,421	845	1,294,772	3,270	1,335,798
Intergovernmental payables	31	2,452	52	1	40	-	2,576
Due to other State fiduciary funds	226	883	374	10	54	-	1,547
Due to other Department funds	942	1,666	303	3	54	1,489	4,457
Due to other State funds	1,522	1,307	415	4	1,118	-	4,366
Due to State of Illinois component units	31	641	10	-	23	-	705
Obligations under securities lending of State Treasurer	-	2,265	983	2,918	10,705	-	16,871
Current portion of long-term obligations	140	333	126	106,384	50	-	107,033
<b>Total current liabilities</b>	<b>9,197</b>	<b>37,732</b>	<b>4,684</b>	<b>110,165</b>	<b>1,306,816</b>	<b>4,759</b>	<b>1,473,353</b>
Noncurrent portion of long-term obligations	765	2,108	1,404	472,917	219	-	477,413
<b>Total liabilities</b>	<b>9,962</b>	<b>39,840</b>	<b>6,088</b>	<b>583,082</b>	<b>1,307,035</b>	<b>4,759</b>	<b>1,950,766</b>
<b>NET POSITION</b>							
Net investment in capital assets	23,881	141,835	358	-	-	-	166,074
Unrestricted	17,490	94,625	38,171	-	-	-	150,286
<b>Total net position</b>	<b>\$ 41,371</b>	<b>\$ 236,460</b>	<b>\$ 38,529</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 316,360</b>

**State of Illinois**  
**Department of Central Management Services**  
**Combining Statement of Revenues, Expenses and**  
**Changes in Net Position - Internal Service Funds**

For the Year Ended June 30, 2020 (Expressed in Thousands)

	State Garage Revolving 0303	Facilities Management Revolving 0314	Professional Services 0317	Workers' Compensation Revolving 0332	Health Insurance Reserve 0907	Group Life Insurance Premium 1457	Total
<b>OPERATING REVENUES</b>							
Charges for sales and services	\$ 50,516	\$ 191,973	\$ 43,998	\$ 89,291	\$ 2,788,347	\$ 30,525	\$ 3,194,650
Other	91	-	-	-	-	-	91
<b>Total operating revenues</b>	<b>50,607</b>	<b>191,973</b>	<b>43,998</b>	<b>89,291</b>	<b>2,788,347</b>	<b>30,525</b>	<b>3,194,741</b>
<b>OPERATING EXPENSES</b>							
Cost of sales and services	34,183	175,871	36,654	-	-	30,641	277,349
Claims and judgments	-	-	-	89,812	2,658,590	-	2,748,402
General and administrative	10,920	9,821	-	-	55,114	11	75,866
Depreciation	6,689	12,910	35	-	-	-	19,634
Other	12	-	-	-	-	-	12
<b>Total operating expenses</b>	<b>51,804</b>	<b>198,602</b>	<b>36,689</b>	<b>89,812</b>	<b>2,713,704</b>	<b>30,652</b>	<b>3,121,263</b>
<b>Operating income (loss)</b>	<b>(1,197)</b>	<b>(6,629)</b>	<b>7,309</b>	<b>(521)</b>	<b>74,643</b>	<b>(127)</b>	<b>73,478</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>							
Interest and investment income	-	98	80	521	2,338	127	3,164
Interest expense	(29)	(488)	7	-	(82,278)	-	(82,788)
Other revenue	-	-	-	-	5,297	-	5,297
Other expenses	(17)	(6)	(2)	-	-	-	(25)
<b>Income (loss) before contributions</b>	<b>(1,243)</b>	<b>(7,025)</b>	<b>7,394</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(874)</b>
Contributions of capital assets	-	2,162	-	-	-	-	2,162
<b>Change in net position</b>	<b>(1,243)</b>	<b>(4,863)</b>	<b>7,394</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,288</b>
Net position, July 1, 2019	42,614	241,323	31,135	-	-	-	315,072
<b>Net position, June 30, 2020</b>	<b>\$ 41,371</b>	<b>\$ 236,460</b>	<b>\$ 38,529</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 316,360</b>

**State of Illinois**  
**Department of Central Management Services**  
**Combining Statement of Cash Flows**  
**Internal Service Funds**  
For the Year Ended June 30, 2020 (Expressed in Thousands)

	State Garage Revolving 0303	Facilities Management Revolving 0314	Professional Services 0317	Workers' Compensation Revolving 0332	Health Insurance Reserve 0907	Group Life Insurance Premium 1457	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>							
Cash received from sales and services	298	1,901	-	-	-	-	141,793
Cash received from transactions with other funds	55,581	198,412	33,529	99,009	3,378,908	38,982	3,804,421
Cash payments to internal service funds	(5,840)	(10,280)	(5,927)	(105)	(6,823)	(11)	(28,986)
Cash payments to suppliers for goods and services	(26,014)	(145,723)	(30,771)	(6,757)	(3,488,333)	(39,098)	(3,736,696)
Cash payments to employees for services	(16,372)	(38,133)	-	-	(4,019)	-	(58,524)
Cash receipts from other operating activities	91	-	-	-	82,358	-	82,449
Cash payments for other operating activities	-	-	-	(99,909)	-	-	(99,909)
Cash provided (used) by operating activities	7,744	6,177	(3,169)	(7,762)	101,685	(127)	104,548
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>							
Grants received	-	-	-	-	5,457	-	5,457
Other noncapital financing activities	(188)	(902)	(28)	-	(148,690)	-	(149,808)
Net cash provided (used) by noncapital financing activities	(188)	(902)	(28)	-	(143,233)	-	(144,351)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>							
Acquisition and construction of capital assets	(10,827)	(1,163)	(121)	-	-	-	(12,111)
Net cash (used) by capital and related financing activities	(10,827)	(1,163)	(121)	-	-	-	(12,111)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>							
Interest and dividends on investments	-	105	90	535	2,414	127	3,271
Net cash provided by investing activities	-	105	90	535	2,414	127	3,271
<b>Net increase (decrease) in cash and cash equivalents</b>	(3,271)	4,217	(3,228)	(7,227)	(39,134)	-	(48,643)
Cash and cash equivalents, July 1, 2019	5,319	4,386	5,261	25,999	138,121	-	179,086
<b>CASH AND CASH EQUIVALENTS, JUNE 30, 2020</b>	\$ 2,048	\$ 8,603	\$ 2,033	\$ 18,772	\$ 98,987	\$ -	\$ 130,443
<b>Reconciliation of cash and cash equivalents to the statement of net position:</b>							
Total cash and cash equivalents per the statement of net assets	2,048	8,603	2,033	7,298	75,876	-	83,174
Add: cash equity with State Treasurer	-	-	-	11,474	23,111	-	47,269
<b>CASH AND CASH EQUIVALENTS, JUNE 30, 2020</b>	\$ 2,048	\$ 8,603	\$ 2,033	\$ 18,772	\$ 98,987	\$ -	\$ 130,443

**State of Illinois**  
**Department of Central Management Services**  
**Combining Statement of Cash Flows**  
**Internal Service Funds**

For the Year Ended June 30, 2020 (Expressed in Thousands)

	State Garage Revolving 0303	Facilities Management Revolving 0314	Professional Services 0317	Workers' Compensation Revolving 0332	Health Insurance Reserve 0907	Group Life Insurance Premium 1457		
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>								
<b>OPERATING INCOME (LOSS)</b>	\$ (1,197)	\$ (6,629)	\$ 7,309	\$ (521)	\$ 74,643	\$ (127)	\$ 73,478	
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:								
Depreciation	6,689	12,910	35	-	-	-	-	19,634
Changes in assets and liabilities:								
(Increase) decrease in accounts receivable	(4)	-	-	-	1,305	3,437	-	4,738
(Increase) decrease in intergovernmental receivables	13	-	-	-	-	-	-	13
(Increase) decrease in due from other funds	7,413	13,956	(10,471)	9,718	730,154	4,986	34	755,756
(Increase) decrease in due from component units	-	29	-	-	(1)	-	-	62
(Increase) decrease in inventories	4	-	-	-	-	-	-	4
(Increase) decrease in prepaid expenses	-	-	-	-	(40,310)	-	-	(40,310)
Increase (decrease) in accounts payable and accrued liabilities	(5,581)	(4,909)	(148)	(84)	(661,051)	(154)	-	(671,927)
Increase (decrease) in intergovernmental payables	(2)	(533)	1	(1)	(13)	-	-	(548)
Increase (decrease) in due to other State funds	348	(6,389)	(105)	(15)	(3,048)	(8,303)	-	(17,512)
Increase (decrease) in due to component units	(22)	233	10	-	23	-	-	244
Increase (decrease) in unearned revenues	-	(2,699)	-	-	-	-	-	(2,699)
Increase (decrease) in other liabilities	83	208	200	(16,859)	(17)	-	-	(16,385)
Total adjustments	8,941	12,806	(10,478)	(7,241)	27,042	-	-	31,070
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>\$ 7,744</b>	<b>\$ 6,177</b>	<b>\$ (3,169)</b>	<b>\$ (7,762)</b>	<b>\$ 101,685</b>	<b>\$ (127)</b>	<b>\$ 104,548</b>	
<b>NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES</b>								
Transfers of assets from (to) other State funds	\$ (17)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (17)
Gain (loss) on sale of property and equipment	-	(6)	(2)	-	-	-	-	(8)
Transfer of capital assets, net of related debt, to/from other State funds	-	2,162	-	-	-	-	-	2,162

**State of Illinois**  
**Department of Central Management Services**  
**Combining Statement of Fiduciary Net Position**  
**Pension (and Other Employee Benefit) Trust Funds**  
June 30, 2020 (Expressed in Thousands)

	Teacher Health Insurance Security 0203	Community College Health Insurance Security 0577	State Employees' Deferred Compensation Plan 0755	Total
<b>ASSETS</b>				
Cash equity with State Treasurer	\$ 15,977	\$ 690	\$ 7,035	\$ 23,702
Cash and cash equivalents	11,321	1,692	104,150	117,163
Investments:				
Equities	-	-	3,815,155	3,815,155
Debt mutual funds	-	-	154,127	154,127
Other	-	-	638,480	638,480
Intergovernmental receivables	1,008	132	-	1,140
Other receivables, net	20,635	846	978	22,459
Due from other State funds	205,228	-	-	205,228
Loans and note receivable, net	-	-	37,488	37,488
Prepaid expenses	7,005	-	-	7,005
Securities lending collateral equity of State Treasurer	5,137	332	1,072	6,541
<b>Total assets</b>	<b>266,311</b>	<b>3,692</b>	<b>4,758,485</b>	<b>5,028,488</b>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	69,392	91,292	1,619	162,303
Intergovernmental payables	2	-	1	3
Due to other Department funds	7	2	11	20
Due to other State fiduciary funds	16	2	10	28
Due to other State funds	2,840	29	10	2,879
Obligations under securities lending of State Treasurer	5,137	332	1,072	6,541
Current portion of long-term obligations	7	-	24	31
Noncurrent portion of long-term obligations	88	6	31	125
<b>Total liabilities</b>	<b>77,489</b>	<b>91,663</b>	<b>2,778</b>	<b>171,930</b>
<b>NET POSITION</b>				
Unrestricted net position	-	(87,971)	-	(87,971)
Restricted for OPEB	188,822	-	-	188,822
Restricted for pensions	-	-	4,755,707	4,755,707
<b>Total net position</b>	<b>\$ 188,822</b>	<b>\$ (87,971)</b>	<b>\$ 4,755,707</b>	<b>\$ 4,856,558</b>

**State of Illinois**  
**Department of Central Management Services**

**Combining Statement of Changes in Fiduciary Net Position**  
**Pension (and Other Employee Benefit) Trust Funds**

For the Year Ended June 30, 2020 (Expressed in Thousands)

	Teacher Health Insurance Security 0203	Community College Health Insurance Security 0577	State Employees' Deferred Compensation Plan 0755	Total
<b>Deposits/Contributions:</b>				
Employer	\$ 98,816	\$ 4,598	\$ -	\$ 103,414
State	133,896	4,598	-	138,494
Members/participants	133,896	4,598	164,984	303,478
Other contributions	895	97	53,521	54,513
Total contributions	<u>367,503</u>	<u>13,891</u>	<u>218,505</u>	<u>599,899</u>
<b>Investment income:</b>				
Interest, dividends and other investment income	193	25	22,520	22,738
Net increase in fair value of investments	-	-	141,289	141,289
Reimbursement of investment expenses not separable from investment income	-	-	3,047	3,047
Less: investment expense	-	-	(499)	(499)
Net investment income	<u>193</u>	<u>25</u>	<u>166,357</u>	<u>166,575</u>
<b>Total additions</b>	<u>367,696</u>	<u>13,916</u>	<u>384,862</u>	<u>766,474</u>
<b>Deductions:</b>				
Benefit payments	237,466	22,802	315,503	575,771
Refunds	-	-	108	108
Other Deductions	-	-	3,651	3,651
General and administration	9,472	4,229	2,446	16,147
<b>Total deductions</b>	<u>246,938</u>	<u>27,031</u>	<u>321,708</u>	<u>595,677</u>
<b>Net increase (decrease) in net position</b>	120,758	(13,115)	63,154	170,797
Net position, July 1, 2019	<u>68,064</u>	<u>(74,856)</u>	<u>4,692,553</u>	<u>4,685,761</u>
<b>Net position, June 30, 2020</b>	<u>\$ 188,822</u>	<u>\$ (87,971)</u>	<u>\$ 4,755,707</u>	<u>\$ 4,856,558</u>

**State of Illinois**  
**Department of Central Management Services**

**Combining Statement of Fiduciary Net Position**  
**Agency Funds**

June 30, 2020 (Expressed in Thousands)

	Flexible Spending Account 0202	Group Insurance Premium 0457	Total
<b>ASSETS</b>			
Cash equity with State Treasurer	\$ 10,782	\$ 1,551	\$ 12,333
Cash and cash equivalents	1,076	-	1,076
Other receivables, net	-	2,938	2,938
Securities lending collateral equity of State Treasurer	-	3,268	3,268
<b>Total assets</b>	<b>\$ 11,858</b>	<b>\$ 7,757</b>	<b>\$ 19,615</b>
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities	\$ 11,757	\$ 4,489	\$ 16,246
Due to State of Illinois component units	101	-	101
Obligations under securities lending of State Treasurer	-	3,268	3,268
<b>Total liabilities</b>	<b>\$ 11,858</b>	<b>\$ 7,757</b>	<b>\$ 19,615</b>

**State of Illinois**  
**Department of Central Management Services**

**Combining Statement of Changes in Assets and Liabilities**  
**Agency Funds**

For the Year Ended June 30, 2020 (Expressed in Thousands)

	Balance at July 1, 2019	Additions	Deletions	Balance at June 30, 2020
<b>Flexible Spending Account Fund (0202):</b>				
<b>ASSETS</b>				
Cash equity with State Treasurer	\$ 7,958	\$ 36,537	\$ 33,713	\$ 10,782
Cash and cash equivalents	1,963	28,989	29,876	1,076
<b>Total assets</b>	<b>\$ 9,921</b>	<b>\$ 65,526</b>	<b>\$ 63,589</b>	<b>\$ 11,858</b>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	\$ 9,905	\$ 35,934	\$ 34,082	\$ 11,757
Due to State of Illinois component units	16	603	518	101
<b>Total liabilities</b>	<b>\$ 9,921</b>	<b>\$ 36,537</b>	<b>\$ 34,600</b>	<b>\$ 11,858</b>
<b>Group Insurance Premium Fund (0457):</b>				
<b>ASSETS</b>				
Cash equity with State Treasurer	\$ 4,401	\$ 49,500	\$ 52,350	\$ 1,551
Other receivables, net	-	2,938	-	2,938
Securities lending collateral equity of State Treasurer	1,594	152,789	151,115	3,268
<b>Total assets</b>	<b>\$ 5,995</b>	<b>\$ 205,227</b>	<b>\$ 203,465</b>	<b>\$ 7,757</b>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	\$ 4,401	\$ 52,438	\$ 52,350	\$ 4,489
Obligations under securities lending of State Treasurer	1,594	152,789	151,115	3,268
<b>Total liabilities</b>	<b>\$ 5,995</b>	<b>\$ 205,227</b>	<b>\$ 203,465</b>	<b>\$ 7,757</b>
<b>Total</b>				
<b>ASSETS</b>				
Cash equity with State Treasurer	\$ 12,359	\$ 86,037	\$ 86,063	\$ 12,333
Cash and cash equivalents	1,963	28,989	29,876	1,076
Other receivables, net	-	2,938	-	2,938
Securities lending collateral equity of State Treasurer	1,594	152,789	151,115	3,268
<b>Total assets</b>	<b>\$ 15,916</b>	<b>\$ 270,753</b>	<b>\$ 267,054</b>	<b>\$ 19,615</b>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	\$ 14,306	\$ 88,372	\$ 86,432	\$ 16,246
Due to State of Illinois component units	16	603	518	101
Obligations under securities lending of State Treasurer	1,594	152,789	151,115	3,268
<b>Total liabilities</b>	<b>\$ 15,916</b>	<b>\$ 241,764</b>	<b>\$ 238,065</b>	<b>\$ 19,615</b>

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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

**Report on the Financial Statements**

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 governmental activities, the business-type activities, the major fund, and the aggregate remaining fund information of the State of Illinois, Department of Central Management Services (Department), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Department’s basic financial statements, and have issued our report thereon dated May 6, 2021.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Department’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings as items 2020-001 and 2020-002.

**Internal Control Over Financial Reporting**

Management of the Department is responsible for establishing and maintaining effective internal control over financial reporting (internal control).

In planning and performing our audit of the financial statements, we considered the Department’s 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 Department’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Department’s internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings as items 2020-001 and 2020-002 that we consider to be significant deficiencies.

### **Department's Responses to the Findings**

The Department's responses to the findings identified in our audit is described in the accompanying Schedule of Findings. The Department's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

### **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  
May 6, 2021

STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES  
FINANCIAL AUDIT  
For the Year Ended June 30, 2020

**SCHEDULE OF FINDINGS**

CURRENT FINDINGS – Government Auditing Standards

**2020-001. FINDING** (Inadequate Review of External Service Providers)

The Department of Central Management Services (Department) did not conduct adequate independent internal control reviews over its external service providers' System and Organization Control (SOC) reports.

The Department currently receives copies of the SOC reports from 17 different external service providers and performs an independent internal control review of each SOC report to determine whether any areas of concern are noted. In total the Department received 25 SOC reports during the audit period.

These service providers provide the Department:

- Medical plan coverage and payments
- Claims processing
- Benefits solutions
- Plan administration
- Commuter savings program
- IT hosting
- Software as a Service

During testing of the 25 SOC reports, we noted:

- Twenty-five of 25 (100%) SOC reports identified Complementary User Entity Controls (CUEC) necessary for the Service Organization's system which relies on the Department to implement the CUECs in order to achieve the Service Organization's control objectives. The Department did not perform an assessment to determine if it had implemented the CUECs for each.
- Twenty-one of 25 (84%) SOC external service provider reports identified additional subservice organizations used by the service organization that were carved out of the SOC report. These subservice organizations required additional CUECs and the service provider relied on the subservice organizations to implement the CUECs in order to achieve the Service Organization's control objectives. The Department did not perform additional assessments on the subservice organizations to determine if the CUECs had been implemented.

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**2020-001. FINDING** (Inadequate Review of External Service Providers) – Continued

- Ten of 25 (40%) SOC reports had qualified opinions due to deficiencies noted by the SOC auditors. The Department did not perform an analysis on whether they could rely on the external service providers' controls due to the deficiencies noted in the SOC reports with qualified opinions. Through our assessment of the types of deficiencies noted by the SOC auditors, and the substantive testing we performed in other areas of our audit, we were able to rely on the testing and assurance provided by the SOC reports.

The National Institute of Standards and Technology (NIST), Special Publication 800-35, Guide to Information Technology Security Services, states the organization should ensure operational success by consistently monitoring service providers and organizational security performance against identified requirements, periodically evaluating changes in risks and threats to the organization and ensuring the organizational security solution is adjusted as necessary to maintain an acceptable security posture. As such, reviews of assessments, audits and inspections should be completed to determine the controls are in place at all vendors, service providers and subservice providers.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires State agencies to establish and maintain a system, or systems, of internal fiscal administrative controls, to provide assurance that revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports to maintain accountability over the State's resources. Strong management controls, due diligence, and fiduciary responsibility require adequate supervision of external service providers.

Department management stated the Department increased its efforts to improve oversight of its external service providers but was unable to implement a corrective action plan due to the brief amount of time between audit periods.

The SOC reports which include CUECs and subservice organization CUECs specifically assume the user entities will apply complementary controls included in the reports. The system descriptions within the SOC reports are designed considering these controls will be implemented by the user entities and doing so is necessary to fully achieve the control objectives covered by the SOC reports. The failure of the Department to consider the application of the complementary user controls to itself lessens the effectiveness of relying on the SOC reports as an element of its financial reporting internal control structure.

The qualified opinions in the SOC reports indicate deficiencies in the service organizations' control environment, which could potentially impact the Department and result in inaccurate data or the loss of data. (Finding Code No. 2020-001, 2019-009)

STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES  
FINANCIAL AUDIT  
For the Year Ended June 30, 2020

**2020-001. FINDING** (Inadequate Review of External Service Providers) – Continued

**RECOMMENDATION**

We recommend the Department:

- Monitor and document the operation of the Complementary User Entity Controls (CUECs) relevant to the Department's operations.
- Either obtain and review SOC reports for subservice organizations, if applicable to the Department's internal control environment, or perform alternative procedures to satisfy itself the usage of the subservice organizations would not impact the Department's internal control environment. Such review and procedures should be documented.
- Document its review of the SOC reports and review all significant issues with third-party service providers and subservice organizations to ascertain if a corrective action plan exists and when it will be implemented, any impacts to the Department, and any compensating controls.

**DEPARTMENT RESPONSE**

While all service providers' SOC reports were reviewed by the Department and Illinois Department of Innovation and Technology (DoIT), the Department agrees additional assessments on Complementary End User Controls (CEUCs), subservice organizations and qualified opinions, as identified in the audit, were not properly documented. The Department has worked with DoIT and our external service providers to update our SOC review process and documentation to address the concerns identified in the audit. The new process includes the following:

- 1) SOC reports are sent to the DoIT Compliance team, who then completes an initial review for each SOC report;
- 2) A call is scheduled to discuss, assess and document the risk of any opinions, identify subservice organizations and ensure CEUCs are in place;
- 3) When needed, follow-up meetings are held with the service provider and artifacts are provided to DoIT;
- 4) DoIT sends the documented SOC review to the Department for approval and signoff; and
- 5) Completed forms are retained by DoIT Compliance and the Department.

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**2020-001. FINDING** (Inadequate Review of External Service Providers) – Continued

The Department works closely with external service providers to ensure internal controls are in place including a strong monitoring framework for 3rd party vendors. Monitoring of the vendors' service measures is done regularly through a multi-layer approach to take the appropriate action to reduce, mitigate, and manage the risk of an incident impact on the Department's financial statements. Contractually, external service providers are required to report on service measures and meet performance standards, called performance guarantees, and any deficiencies are reported and are remediated with the vendors as soon as possible. These measures may include claim processing accuracy, claim payment accuracy and financial accuracy, as well as claim timeliness, and customer service. In addition, quarterly eligibility audits are required by each vendor – reconciling enrollments between our system of record and our 3<sup>rd</sup> party vendors, to ensure we are paying premiums or administrative fees and claims for the correct members. Rates are confirmed internally with procurement against contracts to ensure they match, rates are loaded into our system of record and verified prior to the effective date, and rates in carrier payment reports (self-billing reports from which payments are made) are checked in the period when new rates are introduced, to ensure we are paying the correct amounts. Carrier payment reports are accompanied each month by a separate file that details the successful Quality Assurance reporting for that month on the carrier payment reports, to ensure the reports have generated correctly. These administrative controls provide the Department with assurance that revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for, mitigating the risk of an incident impacting the Department's financial statements.

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**2020-002. FINDING** (Lack of Census Data Reconciliations)

The Department of Central Management Services (Department) did not have a reconciliation process to provide assurance census data submitted to its pension and other postemployment benefits (OPEB) plans was complete and accurate.

Census data is demographic data (date of birth, gender, years of service, etc.) of the active, inactive, or retired members of a pension or OPEB plan. The accumulation of inactive or retired members' census data occurs before the current accumulation period of census data used in the plan's actuarial valuation (which eventually flows into each employer's financial statements), meaning the plan is solely responsible for establishing internal controls over these records and transmitting this data to the plan's actuary. In contrast, responsibility for active members' census data during the current accumulation period is split among the plan and each member's current employer(s). Initially, employers must accurately transmit census data elements of their employees to the plan. Then, the plan must record and retain these records for active employees and then transmit this census data to the plan's actuary.

We noted the Department's employees are members of both the State Employees' Retirement System of Illinois (SERS) for their pensions and the State Employees Group Insurance Program sponsored by the Bureau of Benefits within the State of Illinois, Department of Central Management Services (Bureau) for their OPEB. In addition, we noted these plans have characteristics of different types of pension and OPEB plans, including single employer plans and cost-sharing multiple-employer plans.

During testing, we noted the following:

- 1) The Department had not performed an initial complete reconciliation of its census data recorded by both SERS and its Bureau to the personnel records of the Department's employees to establish a base year of complete and accurate census data.
- 2) After establishing a base year, the Department had not developed a process to annually obtain from both SERS and its Bureau the incremental changes recorded by SERS and its Bureau in their census data records and reconcile these changes back to the personnel records of the Department's employees.

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**2020-002. FINDING** (Lack of Census Data Reconciliations) – Continued

For employers where their employees participate in plans with multiple-employer and cost-sharing features, the American Institute of Certified Public Accountants' *Audit and Accounting Guide: State and Local Governments* (AAG-SLG) (§ 13.177 for pensions and § 14.184 for OPEB) notes the determination of net pension/OPEB liability, pension/OPEB expense, and the associated deferred inflows and deferred outflows of resources depends on employer-provided census data reported to the plan being complete and accurate along with the accumulation and maintenance of this data by the plan being complete and accurate. To help mitigate against the risk of a plan's actuary using incomplete or inaccurate census data within similar agent multiple-employer plans, the AAG-SLG (§ 13.181 (A-27) for pensions and § 14.141 for OPEB) recommends an employer annually reconcile its active members' census data to a report from the plan of census data submitted to the plan's actuary, by comparing the current year's census data file to both the prior year's census data file and its underlying records for changes occurring during the current year.

Further, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance funds applicable to operations are properly recorded and accounted for to permit the preparation of reliable financial and statistical reports.

Department officials indicated since there were no exceptions noted and limited resources were available, the Department was not aware a reconciliation was necessary.

Failure to reconcile active members' census data reported to and held by both SERS and its Bureau to the Department's personnel records could result in each plan's actuary relying on incomplete or inaccurate census data in the calculation of the Department's pension and OPEB balances, which may result in a misstatement of these amounts. (Finding Code No. 2020-002)

**RECOMMENDATION**

We recommend the Department work with both SERS and its Bureau to develop an annual reconciliation process of its active members' census data from the Department's underlying personnel records to a report from each plan of census data submitted to the plan's actuary. After completing an initial full reconciliation, the Department may limit the annual reconciliation to focus on the incremental changes to the census data file from the prior actuarial valuation, provided no risks are identified that incomplete or inaccurate reporting of census data may have occurred during prior periods.

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**2020-002. FINDING** (Lack of Census Data Reconciliations) – Continued

**DEPARTMENT RESPONSE**

While the Department did not have any exceptions noted by the auditors, the Department will endeavor to perform the reconciliation recommended by the auditors given our available resources.