



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

FINANCIAL AUDIT

For the Year Ended June 30, 2022

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



SIKICH.COM

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
FINANCIAL AUDIT
For the Year Ended June 30, 2022

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DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
FINANCIAL AUDIT
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STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
FINANCIAL AUDIT
For the Year Ended June 30, 2022

AGENCY OFFICIALS

Director (Acting) (1/21/2023 – Present)	Ms. Raven DeVaughn
Director (Acting) (6/13/2022 – 1/20/2023)	Mr. Anthony Pascente
Director (7/1/2021 – 6/12/2022)	Ms. Janel Forde
Assistant Director (3/28/2022 – Present)	Mr. Mark Mahoney
Assistant Director (Acting) (7/1/2021 – 3/27/2022)	Mr. Mark Mahoney
Assistant Director (1/21/2023 – Present)	Vacant
Assistant Director (Acting) (9/7/2021 – 1/20/2023)	Ms. Raven DeVaughn
Chief of Staff (2/16/2023-Present)	Patrick Nolan
Chief of Staff (6/13/2022 – 2/15/2023)	Vacant
Chief of Staff (7/1/2021 - 6/12/2022)	Mr. Anthony Pascente
Chief Administrative Officer	Ms. Sarah Kerley
Chief Operating Officer (1/21/2023 – Present)	Vacant
Chief Operating Officer (7/1/2021 – 1/20/2023)	Ms. Aysegul Kalaycioglu
Chief Financial Officer	Ms. Karen Pape
General Counsel	Mr. Terrence Glavin
Chief Internal Auditor	Mr. Jack Rakers

Agency main offices are located at:

State of Illinois Building
555 W. Monroe Street
Chicago, Illinois 60661

William G. Stratton Building
401 S. Spring Street
Springfield, Illinois 62706

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
FINANCIAL AUDIT
For the Year Ended June 30, 2022

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

Number of	<u>Current Report</u>	<u>Prior Report</u>
Findings	3	3
Repeated Findings	1	2
Prior Recommendations Implemented or Not Repeated	2	1

SCHEDULE OF FINDINGS

<u>Item No.</u>	<u>Pages</u>	<u>Last/First Report</u>	<u>Description</u>	<u>Finding Type</u>
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CURRENT FINDINGS

2022-001	68-69	2021/2019	Failure to determine premiums that allow for establishment of actuarial sound reserve	Significant Deficiency and Noncompliance
2022-002	70-71	New	Inaccurate census data	Significant Deficiency and Noncompliance
2022-003	72	New	Inadequate controls over change management	Significant Deficiency

PRIOR FINDING NOT REPEATED

A	73	2021/2021	Inadequate monitoring of internal service fund billings	Significant Deficiency and Noncompliance
B	73	2021/2021	Lack of Census Data Reconciliations	Significant Deficiency

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
FINANCIAL AUDIT
For the Year Ended June 30, 2022

EXIT CONFERENCE

The Department waived an exit conference in a correspondence from Amy Lange, Audit Liaison on February 10, 2023. The responses to the recommendations were provided by Amy Lange, Audit Liaison, in a correspondence dated February 23, 2023.

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INDEPENDENT AUDITOR'S REPORT

Honorable Frank J. Mautino
Auditor General
State of Illinois

Report on the Audit of the Financial Statements

Opinions

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the governmental activities, 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, 2022, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, the major fund, and the aggregate remaining fund information of the Department, as of June 30, 2022, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Department, and to meet our ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2022, 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.

Further, as discussed in Note 2 to the financial statements, in Fiscal Year 2022, the Department adopted new accounting guidance from GASB 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. The requirements of this statement resulted in the restatement of the notes to the financial statements but had no impact on the Department's beginning net position as discussed in Note 16. Our opinions were not modified with respect to this matter.

Responsibilities of Management 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, and for 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 Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- exercise professional judgement and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 opinions on the basic financial statements are not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the financial statements. The accompanying supplementary information is presented for purposes of additional analysis and are not a required part of the basic financial statements. The 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. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 March 17, 2023, 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
March 17, 2023

BASIC FINANCIAL STATEMENTS

State of Illinois
Department of Central Management Services

Statement of Net Position

June 30, 2022 (Expressed in Thousands)

	Governmental Activities	Business-Type Activities	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
Unexpended appropriations	\$ 23,973	\$ -	\$ 23,973
Cash equity with State Treasurer	245,075	5,322	250,397
Cash and cash equivalents	73,310	1,886	75,196
Securities lending collateral equity of State Treasurer	39,360	801	40,161
Receivables, net:			
Intergovernmental	1,370	527	1,897
Other	31,565	364	31,929
Due from other Department funds	1	-	1
Due from other State funds	569,163	-	569,163
Due from State of Illinois component units	13,302	-	13,302
Prepaid expenses	841	-	841
Inventories	1,782	-	1,782
Capital assets not being depreciated	45,842	-	45,842
Capital assets being depreciated, net	596,272	1	596,273
Total assets	1,641,856	8,901	1,650,757
Deferred outflows of resources - pensions	19,196	-	19,196
Deferred outflows of resources - OPEB	9,487	-	9,487
Total deferred outflows of resources	28,683	-	28,683
Total assets and deferred outflows of resources	1,670,539	8,901	1,679,440
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES			
Accounts payable and accrued liabilities	251,745	2,120	253,865
Intergovernmental payables	2,535	-	2,535
Due to Department funds	-	1	1
Due to other State fiduciary funds	195	-	195
Due to other State funds	6,412	10	6,422
Due to State of Illinois component units	464	-	464
Obligations under securities lending of State Treasurer	39,360	801	40,161
Unearned revenue	-	20	20
Long term obligations:			
Due within one year	167,539	5	167,544
Due subsequent to one year	795,578	36	795,614
Net pension liability	63,459	-	63,459
Total OPEB liability			
Due within one year	909	-	909
Due subsequent to one year	42,563	-	42,563
Total liabilities	1,370,759	2,993	1,373,752
Deferred inflows of resources - pensions	45,991	-	45,991
Deferred inflows of resources - OPEB	34,448	-	34,448
Total deferred inflows of resources	80,439	-	80,439
Total liabilities and deferred inflows of resources	1,451,198	2,993	1,454,191
NET POSITION			
Net investment in capital assets	251,179	-	251,179
Restricted for:			
General government	1,422	-	1,422
Unrestricted	(33,260)	5,908	(27,352)
Total net position	\$ 219,341	\$ 5,908	\$ 225,249

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, 2022 (Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenues and Changes in Net Position		Total
		Charges for Services	Federal	Governmental Activities	Business-Type Activities	
Primary government						
Governmental activities						
General government	\$ 3,432,749	\$ 2,328,447	\$ 4,490	\$ (1,099,812)		\$ (1,099,812)
Education	448,969	-	-	(448,969)		(448,969)
Employment and economic development	16,037	-	-	(16,037)		(16,037)
Health and social services	189,643	-	-	(189,643)		(189,643)
Transportation	58,678	-	-	(58,678)		(58,678)
Public protection and justice	197,203	-	-	(197,203)		(197,203)
Environment and business regulation	34,531	-	-	(34,531)		(34,531)
Total governmental activities	<u>4,377,810</u>	<u>2,328,447</u>	<u>4,490</u>	<u>(2,044,873)</u>		<u>(2,044,873)</u>
Business type activities						
Insurance program	\$ 33,677	\$ 32,829			\$ (848)	(848)
Total business-type activities	<u>33,677</u>	<u>32,829</u>			<u>(848)</u>	<u>(848)</u>
Total primary government	<u>\$ 4,411,487</u>	<u>\$ 2,361,276</u>				<u>\$ (2,045,721)</u>
General revenues						
Appropriations from State Resources				2,990,235	-	2,990,235
Lapsed appropriations				(2,125)	-	(2,125)
Receipts collected and transmitted to State Treasury				(2,103)	-	(2,103)
Interest and investment income				(1,099)	(9)	(1,108)
Other revenues				8,969	6	8,975
Capital contributions				27,780	-	27,780
Amount of SAMS transfers-out				218,000	-	218,000
Total general revenues and transfers				<u>3,239,657</u>	<u>(3)</u>	<u>3,239,654</u>
Change in net position				1,194,784	(851)	1,193,933
Net position, July 1, 2021				(975,443)	6,759	(968,684)
Net position, June 30, 2022				<u>\$ 219,341</u>	<u>\$ 5,908</u>	<u>\$ 225,249</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, 2022 (Expressed in Thousands)

	<u>General Fund</u>	<u>Nonmajor Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Unexpended appropriations	\$ 23,973	\$ -	\$ 23,973
Cash equity with State Treasurer	17,521	32	17,553
Cash and cash equivalents	4,732	-	4,732
Receivables, net:			
Other receivables	73	-	73
Due from other Department funds	3,423	-	3,423
Securities lending collateral equity of State Treasurer	1,202	-	1,202
Total assets	<u>\$ 50,924</u>	<u>\$ 32</u>	<u>\$ 50,956</u>
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES			
Accounts payable and accrued liabilities	\$ 17,793	\$ -	\$ 17,793
Intergovernmental payables	47	-	47
Due to other Department funds	63,430	2,863	66,293
Due to other State funds	586	-	586
Due to State of Illinois component units	266	-	266
Matured portion of long-term obligations	78	-	78
Obligations under securities lending of State Treasurer	1,202	-	1,202
Total liabilities	<u>83,402</u>	<u>2,863</u>	<u>86,265</u>
Deferred inflows of resources - unavailable revenue	53	-	53
Total liabilities and deferred inflows of resources	<u>83,455</u>	<u>2,863</u>	<u>86,318</u>
FUND BALANCES (DEFICITS)			
Restricted - General Government	1,422	-	1,422
Unassigned	(33,953)	(2,831)	(36,784)
Total fund balances (deficits)	<u>(32,531)</u>	<u>(2,831)</u>	<u>(35,362)</u>
Total liabilities, deferred inflows of resources and fund balances (deficits)	<u>\$ 50,924</u>	<u>\$ 32</u>	<u>\$ 50,956</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, 2022
(Expressed in Thousands)

Total fund balances-governmental funds \$ (35,362)

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. 12,865

Revenues in the Statement of Activities that do not provide
current financial resources are deferred in governmental funds. 53

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. 407,634

Deferred outflows of resources related to pensions. 19,196

Deferred inflows of resources related to pensions. (45,991)

Deferred outflows of resources related to OPEB. 9,487

Deferred inflows of resources related to OPEB. (34,448)

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	(662)
Lease obligations	(1)
Auto liability claims	(6,499)
Total OPEB liability	(43,472)
Net pension liability	(63,459)

(114,093)

Net position of governmental activities \$ 219,341

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, 2022 (Expressed in Thousands)

	<u>General Fund</u>	<u>Nonmajor Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
Interest and other investment income	\$ 19	\$ -	\$ 19
Other	2,798	640	3,438
Federal operating revenues	4,490	-	4,490
Total revenues	<u>7,307</u>	<u>640</u>	<u>7,947</u>
EXPENDITURES			
General government	178,911	-	178,911
Education	888,225	-	888,225
Employment and economic development	31,680	-	31,680
Health and social services	375,081	-	375,081
Transportation	29,138	87,456	116,594
Public protection and justice	390,139	-	390,139
Environment and business regulation	68,250	-	68,250
Debt service - principal	2	-	2
Capital outlays	3	-	3
Total expenditures	<u>1,961,429</u>	<u>87,456</u>	<u>2,048,885</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,954,122)</u>	<u>(86,816)</u>	<u>(2,040,938)</u>
OTHER SOURCES (USES) OF FINANCIAL RESOURCES			
Appropriations from State resources	2,859,242	130,993	2,990,235
Lapsed appropriations	(2,125)	-	(2,125)
Receipts collected and transmitted to State Treasury	(1,351)	(752)	(2,103)
Amount of SAMS transfers-out	218,000	-	218,000
Proceeds from lease financing	3	-	3
Transfers-out	(30,000)	-	(30,000)
Net other sources (uses) of financial resources	<u>3,043,769</u>	<u>130,241</u>	<u>3,174,010</u>
Net change in fund balances	1,089,647	43,425	1,133,072
Fund balances (deficits), July 1, 2021	<u>(1,122,178)</u>	<u>(46,256)</u>	<u>(1,168,434)</u>
Fund Balances (Deficits), June 30, 2022	<u>\$ (32,531)</u>	<u>\$ (2,831)</u>	<u>\$ (35,362)</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, 2022
(Expressed in Thousands)

Net change in fund balances \$ 1,133,072

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

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. (7)

Repayment of long-term debt is reported as an expenditure in governmental funds, but the payment reduces long-term liabilities in the Statement of Net Position. 2

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. 14,210

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. (38)

Pensions:

Change in deferred outflows of resources. 2,952

Change in deferred inflows of resources. 37,990

OPEB:

Change in deferred outflows of resources. (89)

Change in deferred inflows of resources. (2,900)

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.

Decrease in compensated absences obligation (37)

Increase in auto liability claims 150

Decrease in net other postemployment benefit obligations 9,358

Decrease in net pension liability 121

Change in net position of governmental activities \$ 1,194,784

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, 2022 (Expressed in Thousands)

	Governmental Activities - Internal Service Funds	Business-Type Activities - Enterprise Fund Local Government Health Insurance Reserve Fund
ASSETS		
Cash equity with State Treasurer	\$ 227,522	\$ 5,322
Cash and cash equivalents	68,578	1,886
Securities lending collateral equity of State Treasurer	38,158	801
Receivables, net:		
Intergovernmental	1,370	527
Other	31,492	364
Due from other Department funds	67,290	-
Due from other State funds	569,163	-
Due from State of Illinois component units	13,302	-
Prepaid expenses	841	-
Inventories	1,782	-
Total current assets	1,019,498	8,900
Capital assets not being depreciated	44,967	-
Capital assets being depreciated, net	584,282	1
Total noncurrent assets	629,249	1
Total assets	1,648,747	8,901
LIABILITIES		
Accounts payable and accrued liabilities	233,952	2,120
Intergovernmental payables	2,488	-
Due to other State fiduciary funds	195	-
Due to other Department funds	4,419	1
Due to other State funds	5,826	10
Due to State of Illinois component units	198	-
Obligations under securities lending of State Treasurer	38,158	801
Unearned Revenue	-	20
Current portion of long-term obligations	166,011	5
Total current liabilities	451,247	2,957
Noncurrent portion of long-term obligations	789,866	36
Total liabilities	1,241,113	2,993
NET POSITION		
Net investment in capital assets	238,314	-
Unrestricted	169,320	5,908
Total net position	\$ 407,634	\$ 5,908

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, 2022 (Expressed in Thousands)

	Governmental Activities - Internal Service Funds	Business-Type Activities - Enterprise Fund Local Government Health Insurance Reserve Fund
OPERATING REVENUES		
Charges for sales and services	\$ 3,291,532	\$ 32,829
Other	1,283	-
Total operating revenues	3,292,815	32,829
OPERATING EXPENSES		
Cost of sales and services	256,306	-
Claims and judgments	2,864,592	-
Benefit payments and refund	-	32,167
General and administrative	81,283	1,508
Depreciation	95,874	2
Total operating expenses	3,298,055	33,677
Operating income (loss)	(5,240)	(848)
NONOPERATING REVENUES (EXPENSES)		
Interest and investment income	(1,118)	25
Interest expense	(41,498)	(34)
Federal government	4,286	6
Income (loss) before contributions	(43,570)	(851)
Contributions of capital assets	27,780	-
Transfers-In	32,862	-
Transfers-Out	(2,862)	-
Change in net position	14,210	(851)
Net position, July 1, 2021	393,424	6,759
Net position, June 30, 2022	\$ 407,634	\$ 5,908

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, 2022 (Expressed in Thousands)

	Governmental Activities - Internal Service Funds	Business-Type Activities - Enterprise Fund Local Government Health Insurance Reserve Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from sales and services	\$ 176,353	\$ 32,532
Cash received from transactions with other funds	4,141,380	-
Cash payments to internal service funds	(32,838)	(217)
Cash payments to suppliers for goods and services	(3,976,930)	(34,026)
Cash payments to employees for services	(63,080)	(745)
Cash receipts from other operating activities	118,892	1,520
Cash payments for workers compensation	(94,251)	-
Net cash provided (used) by operating activities	<u>269,526</u>	<u>(936)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers-in from other funds	32,862	-
Transfers-out to other funds	(2,862)	-
Grants received	4,478	-
Other noncapital financing activities	(145,689)	-
Net cash provided (used) by noncapital financing activities	<u>(111,211)</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(2,572)	-
Principal paid on capital debt	(48,606)	(2)
Interest paid on capital debt	(8,566)	-
Net cash (used) by capital and related financing activities	<u>(59,744)</u>	<u>(2)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends on investments	(1,310)	22
Net cash provided (used) by investing activities	<u>(1,310)</u>	<u>22</u>
Net increase (decrease) in cash and cash equivalents	97,261	(916)
Cash and cash equivalents, July 1, 2021	198,839	8,124
CASH AND CASH EQUIVALENTS, JUNE 30, 2022	<u>296,100</u>	<u>7,208</u>
Reconciliation of cash and cash equivalents to the statement of net assets:		
Total cash and cash equivalents per the statement of net assets	68,578	1,886
Add: cash equity with State Treasurer	227,522	5,322
CASH AND CASH EQUIVALENTS, JUNE 30, 2022	<u>296,100</u>	<u>7,208</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
OPERATING INCOME (LOSS)	<u>(5,240)</u>	<u>(848)</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	95,874	2
Provision for uncollectible accounts	118	-
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(2,744)	63
(Increase) decrease in intergovernmental receivables	4	(268)
(Increase) decrease in due from other funds	1,022,967	-
(Increase) decrease in due from State of Illinois component units	(1,051)	-
(Increase) decrease in inventory	223	-
(Increase) decrease in prepaid expenses	(841)	1,488
Increase (decrease) in accounts payable and accrued liabilities	(834,008)	(1,304)
Increase (decrease) in intergovernmental payables	(2,667)	(1)
Increase (decrease) in due to other State funds	(4,319)	(48)
Increase (decrease) in due to State of Illinois component units	(75)	-
Increase (decrease) in unearned revenues	-	(32)
Increase (decrease) in other liabilities	1,285	12
Total adjustments	274,766	(88)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 269,526</u>	<u>\$ (936)</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Cost of capital acquisitions for leases	\$ 134,917	\$ -
Transfers of assets from (to) other State funds	27,764	-
Gain (loss) on sale of property and equipment	16	-

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, 2022 (Expressed in Thousands)

	Pension (and Other Employee Benefit) Trust Funds
ASSETS	
Cash equity with State Treasurer	\$ 33,991
Cash and cash equivalents	14,218
Intergovernmental receivables	107
Other receivables, net	22,367
Due from other State funds	367,879
Securities lending collateral equity of State Treasurer	5,989
Total assets	444,551
LIABILITIES	
Accounts payable and accrued liabilities	144,628
Due to other State funds	38,788
Obligations under securities lending of State Treasurer	5,989
Current portion of long-term obligations	4
Noncurrent portion of long-term obligations	106
Total liabilities	189,515
NET POSITION	
Unrestricted net position	(123,594)
Restricted for OPEB	378,630
Total net position	\$ 255,036

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, 2022 (Expressed in Thousands)

	Pension (and Other Employee Benefit) Trust Funds
Additions:	
Deposits/Contributions:	
Employer	\$ 83,384
State	111,291
Members/participants	111,291
Other contributions	540
Total contributions	<u>306,506</u>
Investment income:	
Interest, dividends and other investment income	159
Net investment income	<u>159</u>
Total additions	<u>306,665</u>
Deductions:	
Benefit payments	245,470
General and administration	15,269
Total deductions	<u>260,739</u>
Net increase in fiduciary net position	45,926
Net position, July 1, 2021	<u>209,110</u>
Net position, June 30, 2022	<u><u>\$ 255,036</u></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 THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2022

(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 two component units as summarized in the following paragraph. The Department 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' Annual Comprehensive 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 THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2022

(2) Summary of Significant Accounting Policies (Continued)

(a) Financial Reporting Entity (Continued)

Fiduciary Component Units

The Department has two fiduciary component units that administer pension (and other employee benefit) trust funds. These entities are legally separate from the State and meet the definition of a component unit because they impose a financial burden on the State and since no board exists for these entities, the State legislature serves as the de facto governing board; however, due to their fiduciary nature they are presented in the Fiduciary Fund Statements as pension (and other employee benefit) trust funds.

1. Teachers' Health Insurance Security (THIS). The Department is the administrator of a cost-sharing multiple-employer public employee defined benefit OPEB trust fund which provides coverage to teachers employed by public school districts in Illinois (excluding Chicago) even though most covered employees are not State employees. The State is legally mandated to make contributions to THIS.
2. Community College Health Insurance Security (CCHIS). The Department is the administrator of a cost-sharing multiple-employer public employee defined benefit OPEB trust fund which provides coverage to faculty and staff of community colleges even though most covered employees are not State employees. The State is legally mandated to make contributions to CCHIS.

(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, 2022, 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 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.

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2022

(2) Summary of Significant Accounting Policies (Continued)

(b) Basis of Presentation (Continued)

Government-wide Statements (Continued)

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 four primary sub-accounts (General Revenue – 001, Flexible Spending – 202, Group Insurance Premium – 457, and State Employees' Deferred Compensation - 755).

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.

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2022

(2) Summary of Significant Accounting Policies (Continued)

(b) Basis of Presentation (Continued)

Fund Financial Statements (Continued)

Proprietary Fund Types: (Continued)

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.

(c) Measurement Focus and Basis of Accounting

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues and additions are recorded when earned and expenses and deductions 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.

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' Annual Comprehensive Financial Report.

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2022

(2) Summary of Significant Accounting Policies (Continued)

(d) Shared Fund Presentation (Continued)

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.

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 transfers-in received during the fiscal year from SAMS records.

Amount of SAMS Transfers-Out

This "other financing use" account represents all cash transfers-out paid 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.

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2022

(2) Summary of Significant Accounting Policies (Continued)

(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.

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2022

(2) Summary of Significant Accounting Policies (Continued)

(i) Capital Assets (Continued)

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.

(j) Leases

The Department is a lessee for non-cancellable leases of equipment, buildings, and land. The Department recognizes a lease liability and an intangible right to use lease asset in the government-wide financial statements. The Department recognizes lease liabilities with an initial, individual value of \$25,000 or more. At the commencement of a lease, the Department initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over the shorter of the asset useful life or the lease term.

(k) 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.

(l) 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.

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2022

(2) Summary of Significant Accounting Policies (Continued)

(l) Pensions (Continued)

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.

(m) 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 10. The OPEB liabilities, deferred outflows of resources, deferred inflows of resources, and OPEB expense have been recognized in the government-wide financial statements.

(n) 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 9 and 10, respectively. In addition, the Department has recorded deferred inflows in the governmental funds financial statements in connection with unavailable revenues.

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2022

(2) Summary of Significant Accounting Policies (Continued)

(o) 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.

(p) 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 THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2022

(2) Summary of Significant Accounting Policies (Continued)

(q) 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.

(r) 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 Empower Retirement LLC to provide investment management and 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.

(s) 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.

(t) New Accounting Pronouncements

Effective for the year ending June 30, 2022, the Department adopted 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. The impact of implementing this statement has been disclosed in Note 16.

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) simplify accounting for interest cost incurred before the end of a construction period. The implementation of this statement had no financial impact on the Department's net position or results of operations.

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2022

(2) Summary of Significant Accounting Policies (Continued)

(t) New Accounting Pronouncements (Continued)

The portion of 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 related to (a) intra-entity transfers of assets, (b) reporting assets accumulated for defined benefit postemployment benefits provided through plans that are not administered through trusts that meet specified criteria, (c) applicability of certain requirements of Statement No. 84 to postemployment benefit arrangements, (d) exception to acquisition value in a government acquisition and (e) nonrecurring fair value measurements. The implementation of this statement had no financial impact on the Department's net position or results of operations.

The portion of Statement No. 93, *Replacement of Interbank Offered Rates*, which is intended to remove the London Interbank Offered Rate (LIBOR) as an appropriate benchmark interest rate. The implementation of this statement had no financial impact on the Department's net position or results of operations.

The portion of Statement No. 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 enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The implementation of this statement had no financial impact on the Department's net position or results of operations.

The portion of GASB Statement No. 99, *Omnibus 2022*, related to extending the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions Statement No. 34, as amended, and terminology updates related to Statement No. 53 and Statement No. 63 were effective upon issuance in April 2022. The implementation of this statement had no financial impact on the Department's net position or results of operations.

(u) Future Adoption of GASB Statements

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

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. Upon the Agency's adoption of Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, the effective date of the Statement was delayed for the Department until the fiscal year ended June 30, 2023.

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).

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2022

(2) Summary of Significant Accounting Policies (Continued)

(u) Future Adoption of GASB Statements (Continued)

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 portion of Statement No. 99, *Omnibus 2022*, which is intended to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees related to leases, public-private and public-public partnerships, and subscription-based information technology arrangements.

Effective for the year ending June 30, 2024, the Department will adopt the following GASB statements:

The portion of Statement No. 99, *Omnibus 2022*, related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement No 53.

Statement No. 100, *Accounting Changes and Error Corrections*, which is intended to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

Effective for the year ending June 30, 2025, the Department will adopt the following GASB statements:

Statement No. 101, *Compensated Absences*, which is intended to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.

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

**STATE OF ILLINOIS
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NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2022

(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' Annual Comprehensive 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.

(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.

As of June 30, 2022, the Department had the following fixed income investments outside of the State Treasury:

	<u>Book Value (Thousands)</u>	<u>Fair Value (Thousands)</u>	<u>Weighted Average Maturity (Years)</u>
Governmental activities:			
Public Treasurer's Investment Pool	<u>\$ 73,310</u>	<u>\$ 73,310</u>	0.166
Total fixed income investments	<u>\$ 73,310</u>	<u>\$ 73,310</u>	
Fiduciary funds:			
Public Treasurer's Investment Pool	<u>\$ 14,218</u>	<u>\$ 14,218</u>	0.166
Total fixed income investments	<u>\$ 14,218</u>	<u>\$ 14,218</u>	
Business-type activities:			
Public Treasurer's Investment Pool	<u>\$ 1,886</u>	<u>\$ 1,886</u>	0.166
Total fixed income investments	<u>\$ 1,886</u>	<u>\$ 1,886</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.

**STATE OF ILLINOIS
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NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2022

(3) Deposits and Investments (Continued)

(b) Investments (Continued)

Credit Risk: The Department does not have a formal investment policy that limits investment choices. The Governmental Activities money market mutual funds were rated AAmmf by Fitch Ratings.

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>
Governmental activities		
Amounts Per Note 3(a) & (b)	\$ -	\$ 73,310
Cash equivalents	<u>73,310</u>	<u>(73,310)</u>
Amounts per Statement of Net Position	<u>\$ 73,310</u>	<u>\$ -</u>
Fiduciary funds		
Amounts Per Note 3(a) & (b)	\$ -	\$ 14,218
Cash equivalents	<u>14,218</u>	<u>(14,218)</u>
Amounts per Statement of Fiduciary Net Position	<u>\$ 14,218</u>	<u>\$ -</u>
Business-type activities		
Amounts Per Note 3(b)	\$ -	\$ 1,886
Cash equivalents	<u>1,886</u>	<u>(1,886)</u>
Amounts per Statement of Net Position	<u>\$ 1,886</u>	<u>\$ -</u>

**STATE OF ILLINOIS
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NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2022

(3) Deposits and Investments (Continued)

(d) *Securities Lending Transactions*

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

During Fiscal Year 2022, 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 2022 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 2022 resulting from a default of the borrowers or Deutsche Bank AG.

During Fiscal Year 2022, 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 as of June 30, 2022 were \$4,061,655,934 and 3,998,567,638.

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, 2022 arising from securities lending agreements to the various funds of the State. The total allocated to the Agency at June 30, 2022 was \$46.150 million.

**STATE OF ILLINOIS
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NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2022

(4) Inter-fund Balances and Activity

(a) Balances Due to/from Other Funds

The following balances (amounts expressed in thousands) at June 30, 2022 represent amounts due from other Department and State of Illinois funds.

Fund	Due from		Description/Purpose
	Other Department Funds	Other State Funds	
General	\$ 3,423	\$ -	Due from other Department funds for internal service fund services provided.
Internal service	67,290	569,163	Due from other Department funds and other State funds for services provided.
Fiduciary	-	367,879	Due from other State funds for insurance benefits
	<u>\$ 70,713</u>	<u>\$ 937,042</u>	

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2022

(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, 2022 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	\$ 63,430	\$ 586	\$ -	Due to other Department funds for internal service fund services received including healthcare claims and other State funds for services received.
Non-major governmental	2,863	-	-	Due to other Department funds for internal service fund services received including healthcare claims.
Internal service	4,419	5,826	195	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	-	38,788	-	Due to other State funds for services received.
Non-major enterprise	1	10	-	Due to other Department funds for internal service fund services received and other State funds for services received.
	<u>\$ 70,713</u>	<u>\$ 45,210</u>	<u>\$ 195</u>	

**STATE OF ILLINOIS
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NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2022

(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, 2022 were as follows:

Fund	<u>Transfers-in from Other Department Funds</u>	Description/Purpose
Internal service	\$ 32,862	Healthcare payments and funding to convert State vehicle fleet to low-emission vehicles.
	<u>\$ 32,862</u>	
Fund	<u>Transfers-out to Other Department Funds</u>	Description/Purpose
General	\$ (30,000)	Funding to convert State vehicle fleet to low-emission vehicles.
Internal service	<u>(2,862)</u>	Healthcare payments
	<u>\$ (32,862)</u>	

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2022

(5) Capital Assets

Capital asset activity (amounts expressed in thousands) for the year ended June 30, 2022 was as follows:

	Balance June 30, 2021, as restated	Additions	Deletions	Net Transfers	Balance June 30, 2022
Governmental activities:					
Capital assets not being depreciated:					
Land and land improvements	\$ 39,049	\$ -	\$ -	\$ -	\$ 39,049
Nondepreciable historical treasures and works of art	4	-	-	-	4
Construction in progress	3,709	-	-	3,080	6,789
Total capital assets not being depreciated	<u>42,762</u>	<u>-</u>	<u>-</u>	<u>3,080</u>	<u>45,842</u>
Capital assets being depreciated:					
Site improvements	3,761	-	-	-	3,761
Buildings and building improvements	840,765	412	-	24,655	865,832
Right-to-use leased buildings	317,036	137,902	8,729	-	446,209
Equipment	79,783	1,807	9	163	81,744
Right-to-use leased equipment	282	-	-	-	282
Right-to-use leased land	259	-	-	-	259
Depreciable historical treasures and works of art	970	-	-	-	970
Total capital assets being depreciated	<u>1,242,856</u>	<u>140,121</u>	<u>8,738</u>	<u>24,818</u>	<u>1,399,057</u>
Less accumulated depreciation:					
Site improvements	3,761	-	-	-	3,761
Buildings and building improvements	648,889	16,433	-	-	665,322
Right-to-use leased buildings	-	67,223	5,760	-	61,463
Equipment	58,919	11,965	9	134	71,009
Right-to-use leased equipment	-	114	-	-	114
Right-to-use leased land	-	146	-	-	146
Depreciable historical treasures and works of art	970	-	-	-	970
Total accumulated depreciation	<u>712,539</u>	<u>95,881</u>	<u>5,769</u>	<u>134</u>	<u>802,785</u>
Total capital assets being depreciated, net	<u>530,317</u>	<u>44,240</u>	<u>2,969</u>	<u>24,684</u>	<u>596,272</u>
Governmental activity capital assets, net	<u>\$ 573,079</u>	<u>\$ 44,240</u>	<u>\$ 2,969</u>	<u>\$ 27,764</u>	<u>\$ 642,114</u>
	Balance June 30, 2021, as restated	Additions	Deletions	Net Transfers	Balance June 30, 2022
Business-Type activities:					
Capital assets being depreciated:					
Right-to-use leased equipment	\$ 3	\$ -	\$ -	\$ -	\$ 3
Less accumulated depreciation:					
Right-to-use leased equipment	-	2	-	-	2
Business-Type activities capital assets, net	<u>\$ 3</u>	<u>\$ (2)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1</u>

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2022

(5) Capital Assets (Continued)

Depreciation/amortization expense for governmental activities (amounts expressed in thousands) for the year ended June 30, 2022 was charged to functions as follows:

Governmental activities – General Government	\$ 95,881
Business-type activities	<u>2</u>
Total	<u>\$ 95,883</u>

The carrying amount of idled, impaired capital assets, included above as capital assets being depreciated at June 30, 2022, was \$12.288 million. Certain 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.

(6) Long-Term Obligations

Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2022 were as follows:

	Balance June 30, 2021, as restated	Additions	Deletions	Balance June 30, 2022	Amounts Due Within One Year
Governmental activities:					
Compensated absences	\$ 6,153	\$ 7,123	\$ 7,034	\$ 6,242	\$ 664
Workers' compensation claim obligations	558,196	99,362	98,129	559,429	105,605
Auto liability claim obligations	6,887	4,740	5,050	6,577	1,438
Lease obligations	317,577	139,036	65,744	390,869	59,832
Total OPEB liability	52,830	-	9,358	43,472	909
Net pension liability	63,580	-	121	63,459	-
Total governmental activities	\$ 1,005,223	\$ 250,261	\$ 185,436	\$ 1,070,048	\$ 168,448
Business-type activities:					
Compensated absences	\$ 28	\$ 57	\$ 45	\$ 40	\$ 4
Lease obligations	3	-	2	1	1
Total business-type activities	\$ 31	\$ 57	\$ 47	\$ 41	\$ 5
Fiduciary funds:					
Compensated absences	\$ 109	\$ 97	\$ 96	\$ 110	\$ 4
Total fiduciary funds	\$ 109	\$ 97	\$ 96	\$ 110	\$ 4

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

(7) Leases

The Department has entered into various leases for office facilities, equipment, land, and other right to use assets with remaining lease terms ranging from less than one year to 10 years. Although lease terms vary, certain leases are renewable subject to appropriation by the General Assembly. If renewal is reasonably assured, leases requiring appropriation by the General Assembly are considered noncancelable leases for financial reporting purposes. The renewal and termination options are not included in the right to use asset or lease liability balance until they are reasonably certain of exercise.

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2022

(7) Leases (Continued)

Certain Department leases contain both fixed and variable payments. These exist primarily within leases for parking spaces for which payment varies by the number of parking spaces leased. The remaining office facilities, equipment and other leases do not contain variable lease payments. The variable payments are not included in the calculation of the lease liability. The total expenditures for variable payments not previously included in the measurement of the lease liability during the fiscal year ended June 30, 2022 were \$31 thousand.

At June 30, 2022, right-to-use assets under leases (amounts expressed in thousands) are as follows:

	Governmental Activities	Business-Type Activities
Land	\$ 259	\$ -
Buildings	446,209	-
Equipment	282	3
	446,750	3
Less: Accumulated amortization	61,723	2
	\$ 385,027	\$ 1

Future minimum commitments (amounts expressed in thousands) for non-cancelable leases as of June 30, 2022, are as follows:

Year Ending June 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2023	\$ 59,832	\$ 10,849	\$ 1	\$ -
2024	54,048	9,126	-	-
2025	50,786	7,581	-	-
2026	50,825	6,056	-	-
2027	44,046	4,610	-	-
2028-2032	131,332	7,397	-	-
Total minimum lease payments	\$ 390,869	\$ 45,619	\$ 1	\$ -

At June 30, 2022, the Department had commitments under leases prior to the commencement of the lease term totaling \$9.067 million.

(8) 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.

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2022

(8) Risk Management (Continued)

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.

The Department's risk financing of auto liability for the State's non-Department of Transportation liability, \$6.577 million, has been determined using an estimate of claims outstanding. Matured claims payable with expendable available financial resources have been recorded as a liability in the General Revenue Fund, a subaccount of the General Fund, in the amount of \$0.078 million. The remaining portion of the liability, \$6.499 million, as of June 30, 2022, 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, \$559.429 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 \$127.112 million. Payments to the Health Insurance Reserve Fund are based on estimates of amounts needed to pay prior year unprocessed and current year claims.

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2022

(8) Risk Management (Continued)

The following is a reconciliation of the Department's claims liabilities for the years June 30, 2021 and June 30, 2022 (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:				
2021				
Auto Liability	\$ 6,204	\$ 2,168	\$ 1,485	\$ 6,887
Workers' Compensation	579,246	61,545	82,595	558,196
Active Employee Health				
Claims for Self-Insured Plans	284,873	1,065,558	941,981	408,450
Total:	\$ 870,323	\$ 1,129,271	\$ 1,026,061	\$ 973,533
2022				
Auto Liability	\$ 6,887	\$ 4,740	\$ 5,050	\$ 6,577
Workers' Compensation	558,196	99,362	98,129	559,429
Active Employee Health				
Claims for Self-Insured Plans	408,450	1,153,073	1,434,411	127,112
Total:	\$ 973,533	\$ 1,257,175	\$ 1,537,590	\$ 693,118

(9) 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 Annual Comprehensive Financial Report available at 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.

**STATE OF ILLINOIS
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NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2022

(9) Pension (Continued)

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.

Regular Formula Tier 1	Regular Formula Tier 2
<p>A member must have a minimum of eight years of service credit and may retire at:</p> <ul style="list-style-type: none"> • Age 60, with 8 years of service credit. • Any age, when the member's age (years & whole months) plus years of service credit (years & whole months) equal 85 years (1,020 months) (Rule of 85) with 8 years of credited service. • Between ages 55-60 with 25-30 years of service credit (reduced 1/2 of 1% for each month under age 60). <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"> • Age 67, with 10 years of credited service. • Between ages 62-67 with 10 years of credited service (reduced 1/2 of 1% for each month under age 67). <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 2021 rate is \$116,740.</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>

**STATE OF ILLINOIS
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NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2022

(9) Pension (Continued)

Benefit provisions (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 2022, this amount was \$119,892.

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 2022, 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 2022, the employer contribution rate was 56.169%. The Department's contribution amount for fiscal year 2022 was \$0.904 million. In addition, the Department recorded \$4.271 million of revenue and expenditures in the General Revenue account of the General Fund to account for payments to SERS for Department employees that were paid from statewide General Revenue Fund appropriations.

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DEPARTMENT OF CENTRAL MANAGEMENT SERVICES**

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2022

(9) Pension (Continued)

Pension liability, deferred outflows of resources, deferred inflows of resources and expense related to pensions. At June 30, 2022, the Department reported a liability of \$63.459 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, 2021 (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, 2021. As of the current year measurement date of June 30, 2021, the Department's proportion was 0.1917%, which was an increase of 5.14% from its proportion measured as of the prior year measurement date of June 30, 2020.

For the year ended June 30, 2022, the Department recognized a reduction to pension expense of \$35.779 million. At June 30, 2022, the Department reported deferred outflows and deferred inflows of resources related to the pension liability, as of the measurement date of June 30, 2021, from the following sources (amounts expressed in thousands):

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 996	\$ 55
Changes of assumptions	2,470	72
Net difference between projected and actual investment earnings on pension plan investments	-	4,891
Changes in proportion	10,555	40,973
Department contributions subsequent to the measurement date	5,175	-
Total	<u>\$ 19,196</u>	<u>\$ 45,991</u>

\$5.175 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, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows (amounts expressed in thousands):

<u>Year ending June 30,</u>	<u>Amount</u>
2023	(23,444)
2024	(4,986)
2025	(2,897)
2026	(643)
Total	<u>\$ (31,970)</u>

Actuarial methods and assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 2021, 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.

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2022

(9) Pension (Continued)

Actuarial methods and assumptions (Continued)

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.

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, 2021, the best estimates of geometric real rates of return are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Equity	23%	4.8%
Developed Foreign Equity	13%	5.3%
Emerging Market Equity	8%	6.5%
Private Equity	7%	6.8%
Intermediate Investment Grade Bonds	14%	0.4%
Long-Term Government Bonds	4%	0.6%
TIPS	4%	0.3%
High Yield and Bank Loans	5%	2.5%
Opportunistic Debt	8%	4.3%
Emerging Market Debt	2%	2.2%
Real Estate	10%	5.6%
Infrastructure	2%	6.5%
Total	100%	

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NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2022

(9) Pension (Continued)

Discount rate. A discount rate of 6.20% was used to measure the total pension liability as of the measurement date of June 30, 2021 as compared to a discount rate of 6.35% used to measure the total pension liability as of the prior year measurement date. The June 30, 2021 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 1.92%, 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 employer contributions will be made at rates equal to the difference between the statutory contributions and the member rate. 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 2076. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2076, 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 6.20%	1% Increase
Department's proportionate share of the net pension liability	\$78,305	\$63,459	\$51,274

Payables to the pension plan. At June 30, 2022, the Department reported a payable of \$0.001 million to SERS for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2022.

(10) 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 9. 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.

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2022

(10) Other Post-Employment Benefits (Continued)

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 2022, the annual cost of the basic program of group health, dental, and vision benefits before the State's contribution was \$11,363.04 (\$6,290.40 if Medicare eligible) if the annuitant chose benefits provided by a health maintenance organization and \$13,619.28 (\$5,623.44 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.

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, 2022, was measured as of June 30, 2021, with an actuarial valuation as of June 30, 2020. At June 30, 2022, the Department recorded a liability of \$43.472 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, 2021. As of the current year measurement date of June 30, 2021, the Department's proportion was 0.1245%, which was a decrease of 0.1433% from its proportion measured as of the prior year measurement date of June 30, 2020.

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2022

(10) Other Post-Employment Benefits (Continued)

Total OPEB liability, deferred outflows of resources, deferred inflows of resources and expense related to OPEB (Continued)

The Department recognized a reduction to OPEB expense for the year ended June 30, 2022, of \$5.419 million. In addition, the Department recorded \$0.770 million of revenue and expenditures in the General Revenue account of the General Fund to account for contributions to SEGIP for Department employees that were paid from statewide General Revenue Fund appropriations. At June 30, 2022, the Department reported deferred outflows and deferred inflows of resources, as of the measurement date of June 30, 2021, from the following sources (amounts expressed in thousands):

Deferred outflows of resources	
Differences between expected and actual experience	\$ 318
Changes of assumptions	983
Changes in proportion and differences between employer contributions and proportionate share of contributions	7,277
Department contributions subsequent to the measurement date	909
Total deferred outflows of resources	<u>\$ 9,487</u>
Deferred inflows of resources	
Differences between expected and actual experience	\$ 302
Changes of assumptions	11,964
Changes in proportion and differences between employer contributions and proportionate share of contributions	22,182
Total deferred inflows of resources	<u>\$ 34,448</u>

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, 2023. 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):

Year ended June 30,	
2023	\$ (7,438)
2024	(6,531)
2025	(8,539)
2026	(2,969)
2027	(393)
Total	<u>\$ (25,870)</u>

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2022

(10) Other-Post Employment Benefits (Continued)

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, 2020, for eligible SEGIP employees, and SEGIP retiree data as of June 30, 2020.

Valuation Date	June 30, 2020
Measurement Date	June 30, 2021
Actuarial Cost Method	Entry Age Normal
Actuarial assumptions:	
Inflation Rate	2.25%
Projected Salary Increases*	2.50% - 12.25%
Healthcare Cost Trend Rate:	
Medical & Rx (Pre-Medicare & Post-Medicare)	8.00% grading down 0.25% per year over 15 years to 4.25% in year 2038. There is no additional trend rate adjustment due to the repeal of the Excise Tax.
Dental and Vision	3.75% grading up 0.25% in the first year to 4.00% through 2038.
Retirees' share of benefit-related costs	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 2021 and 2022 are based on actual premiums. Premiums after 2022 were projected based on the same healthcare cost trend rates applied to per capita claim costs.

Note: the above actuarial assumptions were used to calculate the OPEB liability as of the current year measurement date and are consistent with the actuarial assumptions used to calculate the OPEB liability as of the prior year measurement date except for the following:

Healthcare Cost Trend Rate:	
Medical and Rx (Pre-Medicare & Post-Medicare)	8.25% grading down 0.25% per year over 16 years to an ultimate trend of 4.25% in the year 2037. There is no additional trend rate adjustment due to the repeal of the Excise Tax.
Dental and Vision	4.00% grading up 0.25% in the first year to 4.25% through 2037.

* Dependent upon service and participation in the respective retirement systems. Includes inflation rate listed.

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NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2022

(10) Other Post-Employment Benefits (Continued)

	Retirement age experience study [^]	Mortality ^{^^}
GARS	July 2015 - June 2018	Pub-2010 Above-Median Income General Healthy Retiree Mortality tables, sex distinct, scaling factors of 99% for males and females and generational mortality improvements using MP-2018 two-dimensional mortality improvement scales
JRS	July 2015 - June 2018	Pub-2010 Above-Median Income General Healthy Retiree Mortality tables, sex distinct, scaling factors of 102% for males and 98% for females and generational mortality improvements using MP-2018 two-dimensional mortality improvement scales
SERS	July 2015 - June 2018	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
TRS	July 2014 - June 2017	RP-2014 with future mortality improvements on a fully generational basis using projection table MP-2017
SURS	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

[^] The actuarial assumptions used in the respective actuarial valuations are based on the results of actuarial experience studies

^{^^} Mortality rates are based on mortality tables published by the Society of Actuaries' Retirement Plans Experience Committee.

Demographic assumptions used in OPEB valuation are identical to those used in the June 30, 2020 valuations for Pensions. Thus, for GARS, JRS and SERS, the 2020 valuation information for pensions is presented in the FY 2021 ACFR in FN 16. For TRS and SURS, the 2020 valuation information is presented in the FY 2022 ACFR in FN 16.

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 2.45% at June 30, 2020 and 1.92% at June 30, 2021 was used to measure the total OPEB liability.

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NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2022

(10) 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 1.92%, 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 (2.92%) or lower (0.92%) than the current rate (amounts expressed in thousands):

	1% Decrease (0.92%)	Current Single Discount Rate Assumption (1.92%)	1% Increase (2.92%)
Total OPEB liability	51,340	43,472	37,246

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 8.00% in 2023 decreasing to an ultimate trend rate of 4.25% in 2038.

	1% Decrease	Current Healthcare Cost Trend Rates Assumption	1% Increase
Total OPEB liability	36,276	43,472	52,994

A one percentage point decrease in healthcare trend rates are 7.00% in plan year end 2023 decreasing to an ultimate trend rate of 3.25% in plan year end 2038.

A one percentage point increase in healthcare trend rates are 9.00% in plan year end 2023 decreasing to an ultimate trend rate of 5.25% in plan year 2038.

(11) Commitments and Contingencies

(a) 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.

(12) 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 governments entities. Financial statements for the LGHIRF may be obtained from the Department. As of June 30, 2022, there were approximately 1,687 employees, 1,136 dependents and 94 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.

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NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2022

(12) Local Government Health Insurance Fund Risk Pool Disclosure (continued)

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, 2022.

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, 2022, 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, 2022 is as follows:

Claims incurred and reported but not paid as of June 30	\$	868
Estimated liability for claims incurred but not reported		<u>1,243</u>
Total estimated liability for future claims		<u>\$ 2,111</u>

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

	2021	2022
Payments made for benefit claims	\$ 33,528	\$ 33,368
Less: liability for unpaid claims, beginning of year	<u>3,619</u>	<u>3,312</u>
Subtotal	<u>29,909</u>	<u>30,056</u>
 Add: liability for unpaid claims, end of year	 <u>3,312</u>	 <u>2,111</u>
Total benefit claim payments and refunds	 <u>\$ 33,221</u>	 <u>\$ 32,167</u>

**STATE OF ILLINOIS
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NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2022

(13) Other Post-Employment Benefit Plans

The Department administers, 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, 2022, there were 979 school districts participating with approximately 257,255 plan members. The Department works in conjunction with the Illinois Teachers' Retirement System to administer the TRIP.

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 0.90 percent contribution from active teachers and 0.67 percent contributions from school districts for program funding purposes

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NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2022

(13) Other Post-Employment Benefit Plans (continued)

(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, 2022, there were 38 community colleges and 1 community college association participating with approximately 32,090 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

(14) 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.

(15) Fund Deficit

For the fiscal year ending June 30, 2022 total benefits and expenses were \$33.677 million which were partially financed by \$4.715 million in State contributions, \$4.715 million in employer contributions, \$58 thousand in the federal government Medicare Part D subsidy, and \$4.715 million in active member contributions, resulting in a net shortfall of \$19.458 million or approximately 57.78% of total expenses.

Because contributions made by the State, employers, and employees are defined as a fixed percentage of payroll, and retired member contributions are subject to a 5.0% per year increase, the funding policy does not provide a provision for adverse experience. The following factors contributed to the deficit: total payroll increasing at a rate lower than expected, premium rates increasing by more than 5.0%, overall claim costs increasing at a rate higher than expected, or more retirements occurring than expected. Also, the current financing policy does not provide a specific provision for claims incurred during the fiscal year that are expected to be paid in the following fiscal year. At June 30, the fund deficit for the Community College Health Insurance Security Fund (Fund 0577) was \$123.594 million.

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2022

(16) Restatement

Certain tables in Department's notes to the financial statements have been restated as of June 30, 2021. Note 5, Capital Assets and Note 6, Long-Term Obligations were restated a result of the following:

(a) Implementation of GASB Statement No. 87, Leases

The Department's notes to the financial statements have been restated as of June 30, 2021 as a result of implementation of GASB Statement No. 87, *Leases*, which requires recognition 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. Implementation of Statement No. 87 had no impact on the Department's beginning net position. Recognition of beginning leased assets and obligations were recognized in the notes to the financial statements as follows:

	Governmental Activities		Business-Type Activities	
	Note 5	Note 6	Note 5	Note 6
	Capital Assets	Long-Term Obligations	Capital Assets	Long-Term Obligations
June 30, 2021, as previously reported	\$ 255,502	\$ 687,646	\$ -	\$ 28
Implementation of GASB 87 (a)				
Right-to-use leased buildings	317,036	-	-	-
Right-to-use leased equipment	282	-	3	-
Right-to-use leased land	259	-	-	-
Lease obligations	-	317,577	-	3
June 30, 2021, as restated	\$ 573,079	\$ 1,005,223	\$ 3	\$ 31

(17) Subsequent Events

Subsequent to June 30, 2022, the Department sold the James R. Thompson Center at 100 West Randolph Street, Chicago, Illinois. The State received \$105 million for the sale including \$30 million in cash and title to a property located 115 S. LaSalle, Chicago, Illinois, which has a value of \$75 million.

SUPPLEMENTARY INFORMATION

State of Illinois
Department of Central Management Services

Combining Schedule of Accounts - General Fund

June 30, 2022 (Expressed in Thousands)

	General Revenue Account 0001	Flexible Spending Account 0202	Group Insurance Premium 0457	State Employees' Deferred Compensation 0755	Total
ASSETS					
Unexpended appropriations	\$ 23,973	\$ -	\$ -	\$ -	\$ 23,973
Cash equity with State Treasurer	132	6,744	3,504	7,141	17,521
Cash and cash equivalents	-	4,732	-	-	4,732
Receivables, net:					
Other	70	-	-	3	73
Due from other Department funds	3,423	-	-	-	3,423
Securities lending collateral equity of State Treasurer	-	-	700	502	1,202
Inventories	-	-	-	-	-
Total assets	\$ 27,598	\$ 11,476	\$ 4,204	\$ 7,646	\$ 50,924
LIABILITIES					
Accounts payable and accrued liabilities	\$ 1,910	\$ 6,663	\$ 3,504	\$ 5,716	\$ 17,793
Intergovernmental payables	47	-	-	-	47
Due to other Department funds	63,427	-	-	3	63,430
Due to other State funds	583	-	-	3	586
Due to State of Illinois component units	173	93	-	-	266
Matured portion of long-term obligations	78	-	-	-	78
Obligations under securities lending of State Treasurer	-	-	700	502	1,202
Total liabilities	66,218	6,756	4,204	6,224	83,402
Deferred inflows of resources - unavailable revenue	53	-	-	-	53
Total liabilities and deferred inflows of resources	66,271	6,756	4,204	6,224	83,455
FUND BALANCES (DEFICITS)					
Restricted - General Government	-	-	-	1,422	1,422
Unassigned	(38,673)	4,720	-	-	(33,953)
Total fund balances (deficits)	(38,673)	4,720	-	1,422	(32,531)
Total liabilities, deferred inflows of resources and fund balances (deficits)	\$ 27,598	\$ 11,476	\$ 4,204	\$ 7,646	\$ 50,924

State of Illinois
Department of Central Management Services

**Combining Schedule of Revenues, Expenditures and Changes
in Fund Balances - General Fund**

For the Year Ended June 30, 2022 (Expressed in Thousands)

	General Revenue Account 0001	Flexible Spending Account 0202	Group Insurance Premium 0457	State Employees' Deferred Compensation 0755	Total
REVENUES					
Interest and other investment income	\$ -	\$ 6	\$ -	\$ 13	\$ 19
Other revenues	1,446	1,352	-	-	2,798
Federal operating revenues	4,490	-	-	-	4,490
Total revenues	5,936	1,358	-	13	7,307
EXPENDITURES					
General government	177,559	432	-	920	178,911
Education	888,225	-	-	-	888,225
Employment and economic development	31,680	-	-	-	31,680
Health and social services	375,081	-	-	-	375,081
Transportation	29,138	-	-	-	29,138
Public protection and justice	390,139	-	-	-	390,139
Environment and business regulation	68,250	-	-	-	68,250
Debt service - principal	-	-	-	2	2
Capital outlay	-	-	-	3	3
Total expenditures	1,960,072	432	-	925	1,961,429
Excess (deficiency) of revenues over (under) expenditures	(1,954,136)	926	-	(912)	(1,954,122)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES					
Appropriations from State resources	2,859,242	-	-	-	2,859,242
Lapsed appropriations	(2,125)	-	-	-	(2,125)
Receipts collected and transmitted to State Treasury	(1,351)	-	-	-	(1,351)
Amount of SAMS transfers-out	218,000	-	-	-	218,000
Proceeds from lease financing	-	-	-	3	3
Transfers-out	(30,000)	-	-	-	(30,000)
Net other sources (uses) of financial resources	3,043,766	-	-	3	3,043,769
Net change in fund balances	1,089,630	926	-	(909)	1,089,647
Fund balances, July 1, 2021	(1,128,303)	3,794	-	2,331	(1,122,178)
Fund Balances, June 30, 2022	\$ (38,673)	\$ 4,720	\$ -	\$ 1,422	\$ (32,531)

State of Illinois
Department of Central Management Services

Balance Sheet - Nonmajor Governmental Funds

Nonmajor Governmental Funds

June 30, 2022 (Expressed in Thousands)

	<u>Special Revenue</u>	<u>Total</u>
	<u>Road 0011</u>	<u>Total</u>
ASSETS		
Cash equity with State Treasurer	\$ 32	\$ 32
Total assets	<u>\$ 32</u>	<u>\$ 32</u>
LIABILITIES		
Due to other Department funds	\$ 2,863	\$ 2,863
Total liabilities	<u>\$ 2,863</u>	<u>\$ 2,863</u>
FUND BALANCES (DEFICITS)		
Unassigned	(2,831)	(2,831)
Total fund balances (deficits)	<u>(2,831)</u>	<u>(2,831)</u>
Total liabilities and fund balances (deficits)	<u>\$ 32</u>	<u>\$ 32</u>

State of Illinois
Department of Central Management Services

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

For the Year Ended June 30, 2022 (Expressed in Thousands)

	<u>Special Revenue</u>	<u>Total</u>
	<u>Road 0011</u>	<u>Total</u>
REVENUES		
Other revenues	\$ 640	\$ 640
Total revenues	<u>640</u>	<u>640</u>
EXPENDITURES		
Transportation	87,456	87,456
Total expenditures	<u>87,456</u>	<u>87,456</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(86,816)</u>	<u>(86,816)</u>
OTHER SOURCES (USES) OF FINANCIAL RESOURCES		
Appropriations from State resources	130,993	130,993
Receipts collected and transmitted to State Treasury	(752)	(752)
Net other sources (uses) of financial resources	<u>130,241</u>	<u>130,241</u>
Net change in fund balances	43,425	43,425
Fund balances, July 1, 2021	<u>(46,256)</u>	<u>(46,256)</u>
Fund Balances, June 30, 2022	<u>\$ (2,831)</u>	<u>\$ (2,831)</u>

State of Illinois
Department of Central Management Services

Combining Statement of Net Position

Internal Service Funds

June 30, 2022 (Expressed in Thousands)

	State Revolving 0303	Garage Management Revolving 0314	Facilities Professional Services 0317	Workers' Compensation Revolving 0332	Health Insurance Reserve 0907	Group Life Insurance Premium 1457	Total
ASSETS							
Cash equity with State Treasurer	\$ 35,727	\$ 57,567	\$ 42,953	\$ 61,799	\$ 29,476	\$ -	\$ 227,522
Cash and cash equivalents	-	-	-	9,276	59,302	-	68,578
Securities lending collateral equity of State Treasurer	-	4,233	5,134	2,930	25,861	-	38,158
Receivables, net:							
Intergovernmental	2	-	-	-	1,368	-	1,370
Other	-	760	30	17	27,681	3,004	31,492
Due from other Department funds	243	6,340	-	-	60,706	1	67,290
Due from other State funds	11,637	60,284	2,088	488,749	6,328	77	569,163
Due from State of Illinois component units	-	18	-	-	12,943	341	13,302
Inventories	1,782	-	-	-	-	-	1,782
Prepaid expenses	-	-	-	-	841	-	841
Total current assets	49,391	129,202	50,205	562,771	224,506	3,423	1,019,498
Capital assets not being depreciated	-	44,967	-	-	-	-	44,967
Capital assets being depreciated, net	10,356	573,473	446	-	7	-	584,282
Total noncurrent assets	10,356	618,440	446	-	7	-	629,249
Total assets	59,747	747,642	50,651	562,771	224,513	3,423	1,648,747
LIABILITIES							
Accounts payable and accrued liabilities	3,722	31,498	917	393	197,422	-	233,952
Intergovernmental payables	3	2,454	7	-	24	-	2,488
Due to other State fiduciary funds	16	126	49	1	3	-	195
Due to other Department funds	306	389	231	-	70	3,423	4,419
Due to other State funds	1,216	3,551	195	2	862	-	5,826
Due to State of Illinois component units	1	193	4	-	-	-	198
Obligations under securities lending of State Treasurer	-	4,233	5,134	2,930	25,861	-	38,158
Current portion of long-term obligations	119	60,010	240	105,616	26	-	166,011
Total current liabilities	5,383	102,454	6,777	108,942	224,268	3,423	451,247
Noncurrent portion of long-term obligations	804	333,241	1,747	453,829	245	-	789,866
Total liabilities	6,187	435,695	8,524	562,771	224,513	3,423	1,241,113
NET POSITION							
Net investment in capital assets	10,222	227,739	353	-	-	-	238,314
Unrestricted	43,338	84,208	41,774	-	-	-	169,320
Total net position	\$ 53,560	\$ 311,947	\$ 42,127	\$ -	\$ -	\$ -	\$ 407,634

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, 2022 (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
OPERATING REVENUES							
Charges for sales and services	\$ 49,335	\$ 219,580	\$ 36,908	\$ 103,648	\$ 2,847,619	\$ 34,442	\$ 3,291,532
Other	1,283	-	-	-	-	-	1,283
Total operating revenues	50,618	219,580	36,908	103,648	2,847,619	34,442	3,292,815
OPERATING EXPENSES							
Cost of sales and services	36,799	146,143	38,914	-	-	34,450	256,306
Claims and judgments	-	-	-	100,886	2,763,706	-	2,864,592
General and administrative	11,989	10,551	-	-	58,727	16	81,283
Depreciation	11,811	83,824	219	2	18	-	95,874
Other	-	-	-	-	-	-	-
Total operating expenses	60,599	240,518	39,133	100,888	2,822,451	34,466	3,298,055
Operating income (loss)	(9,981)	(20,938)	(2,225)	2,760	25,168	(24)	(5,240)
NONOPERATING REVENUES (EXPENSES)							
Interest and investment income	-	96	82	102	(1,422)	24	(1,118)
Interest expense	(22)	(11,378)	(8)	-	(30,090)	-	(41,498)
Federal government	-	804	-	-	3,482	-	4,286
Income (loss) before contributions	(10,003)	(31,416)	(2,151)	2,862	(2,862)	-	(43,570)
Contributions of capital assets	29	27,751	-	-	-	-	27,780
Transfers-In	30,000	-	-	-	2,862	-	32,862
Transfers-Out	-	-	-	(2,862)	-	-	(2,862)
Change in net position	20,026	(3,665)	(2,151)	-	-	-	14,210
Net position, July 1, 2021	33,534	315,612	44,278	-	-	-	393,424
Net position, June 30, 2022	\$ 53,560	\$ 311,947	\$ 42,127	\$ -	\$ -	\$ -	\$ 407,634

State of Illinois
Department of Central Management Services

Combining Statement of Cash Flows
Internal Service Funds

For the Year Ended June 30, 2022 (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
CASH FLOWS FROM OPERATING ACTIVITIES							
Cash received from sales and services	\$ 336	\$ 5,469	\$ -	\$ -	\$ 170,548	\$ -	\$ 176,353
Cash received from transactions with other funds	51,842	271,959	64,630	129,565	3,585,019	38,365	4,141,380
Cash payments to internal service funds	(10,319)	(11,580)	(7,177)	(121)	(3,625)	(16)	(32,838)
Cash payments to suppliers for goods and services	(23,677)	(127,511)	(33,810)	(5,877)	(3,747,682)	(38,373)	(3,976,930)
Cash payments to employees for services	(16,802)	(42,112)	-	-	(4,166)	-	(63,080)
Cash receipts from other operating activities	1,283	-	-	-	117,609	-	118,892
Cash payments for workers compensation	-	-	-	(94,251)	-	-	(94,251)
Net cash provided (used) by operating activities	2,663	96,225	23,643	29,316	117,703	(24)	269,526
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES							
Grants received	-	1,346	29	-	3,103	-	4,478
Transfers-in from other funds	30,000	-	-	-	2,862	-	32,862
Transfers-out to other funds	-	-	-	(2,862)	-	-	(2,862)
Other noncapital financing activities	(21)	(32)	(7)	-	(145,629)	-	(145,689)
Net cash provided (used) by noncapital financing activities	29,979	1,314	22	(2,862)	(139,664)	-	(111,211)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES							
Acquisition and construction of capital assets	(1,724)	(848)	-	-	-	-	(2,572)
Principal paid on capital debt	(14)	(48,509)	(64)	(2)	(17)	-	(48,606)
Interest paid on capital debt	(2)	(8,560)	(4)	-	-	-	(8,566)
Net cash (used) by capital and related financing activities	(1,740)	(57,917)	(68)	(2)	(17)	-	(59,744)
CASH FLOWS FROM INVESTING ACTIVITIES							
Interest and dividends on investments	-	75	57	95	(1,561)	24	(1,310)
Net cash provided by investing activities	-	75	57	95	(1,561)	24	(1,310)
Net increase (decrease) in cash and cash equivalents	30,902	39,697	23,654	26,547	(23,539)	-	97,261
Cash and cash equivalents, July 1, 2021	4,825	17,870	19,299	44,528	112,317	-	198,839
CASH AND CASH EQUIVALENTS, JUNE 30, 2022	\$ 35,727	\$ 57,567	\$ 42,953	\$ 71,075	\$ 88,778	\$ -	\$ 296,100
Reconciliation of cash and cash equivalents to the statement of net position:							
Total cash and cash equivalents per the statement of net position	-	-	-	9,276	59,302	-	68,578
Add: cash equity with State Treasurer	35,727	57,567	42,953	61,799	29,476	-	227,522
CASH AND CASH EQUIVALENTS, JUNE 30, 2022	\$ 35,727	\$ 57,567	\$ 42,953	\$ 71,075	\$ 88,778	\$ -	\$ 296,100

State of Illinois
Department of Central Management Services

Combining Statement of Cash Flows
Internal Service Funds

For the Year Ended June 30, 2022 (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
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:							
OPERATING INCOME (LOSS)	\$ (9,981)	\$ (20,938)	\$ (2,225)	\$ 2,760	\$ 25,168	\$ (24)	\$ (5,240)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:							
Depreciation	11,811	83,824	219	2	18	-	95,874
Provision for uncollectible accounts	-	118	-	-	-	-	118
Changes in assets and liabilities:							
(Increase) decrease in accounts receivable	-	(853)	-	-	(2,223)	332	(2,744)
(Increase) decrease in intergovernmental receivables	4	-	-	-	-	-	4
(Increase) decrease in due from other funds	2,798	53,880	27,722	25,915	908,998	3,654	1,022,967
(Increase) decrease in due from component units	-	42	-	-	(1,030)	(63)	(1,051)
(Increase) decrease in inventories	223	-	-	-	-	-	223
(Increase) decrease in prepaid expenses	-	-	-	-	(841)	-	(841)
Increase (decrease) in accounts payable and accrued liabilities	265	(12,767)	(1,360)	(529)	(812,379)	(7,238)	(834,008)
Increase (decrease) in intergovernmental payables	(29)	(2,574)	(50)	(1)	(13)	-	(2,667)
Increase (decrease) in due to other State funds	(2,466)	(4,496)	(733)	(27)	88	3,315	(4,319)
Increase (decrease) in due to component units	-	(40)	4	-	(39)	-	(75)
Increase (decrease) in other liabilities	38	29	66	1,196	(44)	-	1,285
Total adjustments	12,644	117,163	25,868	26,556	92,535	-	274,766
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 2,663	\$ 96,225	\$ 23,643	\$ 29,316	\$ 117,703	\$ (24)	\$ 269,526
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES							
Cost of capital acquisitions for leases	\$ -	\$ 134,917	\$ -	\$ -	\$ -	\$ -	\$ 134,917
Transfers of assets from (to) other State funds	29	27,735	-	-	-	-	27,764
Gain (loss) on sale of property and equipment	-	16	-	-	-	-	16

State of Illinois
Department of Central Management Services

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

June 30, 2022 (Expressed in Thousands)

	Teacher Health Insurance Security 0203	Community College Health Insurance Security 0577	Total
ASSETS			
Cash equity with State Treasurer	\$ 32,067	\$ 1,924	\$ 33,991
Cash and cash equivalents	11,756	2,462	14,218
Intergovernmental receivables	97	10	107
Other receivables, net	21,569	798	22,367
Due from other State funds	367,879	-	367,879
Securities lending collateral equity of State Treasurer	5,612	377	5,989
Total assets	438,980	5,571	444,551
LIABILITIES			
Accounts payable and accrued liabilities	15,968	128,660	144,628
Due to other State funds	38,660	128	38,788
Obligations under securities lending of State Treasurer	5,612	377	5,989
Current portion of long-term obligations	4	-	4
Noncurrent portion of long-term obligations	106	-	106
Total liabilities	60,350	129,165	189,515
NET POSITION			
Unrestricted net position	-	(123,594)	(123,594)
Restricted for OPEB	378,630	-	378,630
Total net position	\$ 378,630	\$ (123,594)	\$ 255,036

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, 2022 (Expressed in Thousands)

	Teacher Health Insurance Security 0203	Community College Health Insurance Security 0577	Total
Additions:			
Deposits/Contributions:			
Employer	\$ 78,669	\$ 4,715	\$ 83,384
State	106,576	4,715	111,291
Members/participants	106,576	4,715	111,291
Other contributions	482	58	540
Total contributions	292,303	14,203	306,506
Investment income:			
Interest, dividends and other investment income	143	16	159
Net investment income	143	16	159
Total additions	292,446	14,219	306,665
Deductions:			
Benefit payments	217,842	27,628	245,470
General and administration	9,220	6,049	15,269
Total deductions	227,062	33,677	260,739
Net increase (decrease) in fiduciary net position	65,384	(19,458)	45,926
Net position, July 1, 2021	313,246	(104,136)	209,110
Net position, June 30, 2022	\$ 378,630	\$ (123,594)	\$ 255,036

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

Honorable Frank J. Mautino
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the 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, 2022, and the related notes to the financial statements, which collectively comprise the Department’s basic financial statements, and have issued our report thereon dated March 17, 2023.

Report on 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 as a basis for designing 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 were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings as items 2022-001 through 2022-003 that we consider to be significant deficiencies.

Report on 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 instances 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 2022-001 and 2022-002.

Department's Responses to the Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Department's responses to the findings identified in our audit and described in the accompanying Schedule of Findings. The Department's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.

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
March 17, 2023

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
FINANCIAL AUDIT

For the Year Ended June 30, 2022

SCHEDULE OF FINDINGS

2022-001. FINDING (Failure to determine premiums that allow for establishment of actuarial sound reserve)

The Department of Central Management Services (Department) failed to determine premiums that will allow for the establishment of an actuarially sound reserve for the Community College Health Insurance Program (Program).

In the Fiscal Year 2018 and 2019 compliance examination, we first reported the Department had failed to determine premiums that would allow for the establishment of an actuarially sound reserve. During Fiscal Year 2022 testing, we continued to identify exceptions, as noted below:

- The State Employees Group Insurance Act of 1971 (Act) (5 ILCS 375/6.9(e)(2)) states the balance of the rate of insurance, including the entire premium for any coverage for community college dependent beneficiaries that has been elected, shall be paid by deductions authorized by the community college benefit recipient. During testing, we noted the Fund covered 1.932% of the total insurance rate for benefit recipients. The projected total additional cost to the Fund was \$42,066.
- The Act (5 ILCS 375/6.9(e)) requires the Department to determine premiums that will allow for the establishment of an actuarially sound reserve for the Program. As of June 30, 2022, the Program had a fund deficit of \$123.594 million. Additionally, the Program experienced a loss of \$19.458 million during Fiscal Year 2022. The Program does not have an actuarially sound reserve.

Department management indicated the population enrolled in the non-Medicare Advantage Prescription Drug plan in Community College Health Insurance Program represents roughly 1,600 lives (around 19%) of the overall program. This population, being so small in size, can experience significant volatility with its self-insured claims, making them less reliable. Additionally, Department management indicated fully insured HMO product rates are negated with increases across all health insurance programs administered by the Department. While the larger programs' impact on this can reduce volatility in year over year rate changes, the rates themselves are not completely accurate in representing the underlying claims experienced by the population in a given year. Furthermore, Department management indicated the Covid-19 pandemic had a significant impact on the experience of the program, making the last few years of experience less reliable in making future predictions.

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2022-001. FINDING (Failure to determine premiums that allow for establishment of actuarial sound reserve) – Continued

This significant deficiency in internal control over financial and fiscal operations poses a reasonable possibility that future misstatements of the Department’s financial statements or noncompliance will occur and not be prevented or detected or corrected on a timely basis.

The premiums established for the fund were not in compliance with the Act, resulting in additional costs to the State. Additionally, failure to determine premiums that will allow for the establishment of an actuarially sound reserve makes the Program more vulnerable to negative economic impacts, could result in an inability to pay liabilities, and results in statutory noncompliance. (Finding Code No. 2022-001, 2021-001, 2019-002)

RECOMMENDATION

We recommend the Department ensure premium rates meet the requirements established by the Act. Additionally, we recommend the Department either comply with the law by working with the Governor’s Office of Management and Budget to obtain the necessary appropriation to supplement the Program or seek legislative relief from the statutory requirement.

DEPARTMENT RESPONSE

The Department agrees with the finding and will seek legislative relief as an expected bill is in the process of being introduced.

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2022-002. FINDING (Inaccurate census data)

The Department of Central Management Services (Department) did not ensure accurate census data was used in the actuarial valuations.

Census data is demographic data (date of birth, gender, years of service, etc.) of the active, inactive, or retired members of a pension or other postemployment benefit (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 valuations (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 Department 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 backwards testing, we noted one of 40 (3%) employees had a retirement code that differed between Department and SERS records, which resulted in inaccurate data being used in the pension and OPEB actuarial valuations. The independent actuary used for the pension and OPEB plans deemed the error immaterial to the valuations.

The State Records Act (5 ILCS 160/8) requires the Department make and preserve records containing adequate and proper documentation of its essential transactions to protect the legal and financial rights of the State and of persons directly affected by the Department's activities.

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 control 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 these exceptions were due to oversight.

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2022-002. FINDING (Inaccurate census data) – Continued

Failure to ensure census data reported to SERS was complete and accurate may result in a material misstatement of the Department's financial statements and reduced the overall accuracy of SERS-related pension liabilities, deferred inflows and outflows of resources, and expense recorded by the State and its agencies. (Finding Code No. 2022-002)

RECOMMENDATION

We recommend the Department implement controls to ensure accurate data is used in the actuarial valuation. If differences are noted between the Department's data and SERS these differences should be communicated timely to ensure the actuarial valuations are using accurate data.

DEPARTMENT RESPONSE

The Department agrees with the finding. The Department has completed the initial reconciliation of census data as well as the annual reconciliation for Fiscal Year 2022. The Department anticipates having future annual reconciliations completed timely in accordance with SERS.

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2022-003. FINDING (Inadequate controls over change management)

The Department of Central Management Services (Department) did not have sufficient controls over their change management procedures.

Change control is the systematic approach to managing changes to an IT environment, applications, or data. The purpose is to prevent unnecessary and/or unauthorized changes, ensure all changes are documented, and minimize any disruptions due to system changes. The Department was unable to provide a complete and accurate population of changes for applications maintained by the Department; therefore, we were unable to perform any testing of the internal controls over changes to the applications and data.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system, or systems, of internal fiscal and 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 and to maintain accountability over the State's resources.

The Framework for Improving Critical Infrastructure and the Security and Privacy Controls for Information Systems and Organizations (Special Publication 800-53, Fifth Revision) published by the National Institute of Standards and Technology, Configuration Management section, requires entities to document their controls over changes to applications and data to ensure changes are authorized and reviewed.

The State Records Act (5 ILCS 160/8) requires the head of the Department to make and preserve records containing adequate and proper documentation of the functions, decisions, and essential transactions of the Department to protect the legal and financial rights of the State and of persons directly affected by the Department's activities.

Department management indicated the issues noted were due to turnover in the Chief Information Officer position and conflicting priorities.

Failure to implement controls over changes to applications and data could result in unauthorized changes being made. (Finding Code No. 2022-003)

RECOMMENDATION

We recommend the Department implement controls in order to track the changes made to their applications and data.

DEPARTMENT RESPONSE

The Department agrees with the finding. The Department will work with the Department of Innovation and Technology to obtain the information needed to implement the controls necessary for tracking changes made to its applications.

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PRIOR YEAR FINDINGS NOT REPEATED

A. **FINDING** (Inadequate monitoring of internal service fund billings)

During the previous audit, the Department of Central Management Services (Department) did not adequately monitor billings for the Professional Services Fund and the Health Insurance Reserve Fund.

During the current audit period, the Department implemented corrective action which resulted in adequate monitoring of billings for the Professional Services Fund and the Health Insurance Reserve Fund. (Finding Code No. 2021-002)

B. **FINDING** (Lack of census data reconciliations)

During the previous audit, the 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.

During the current audit period, the Department implemented a process to reconcile the census data submitted to its pension and OPEB plans. (Finding Code No. 2021-003, 2020-002)