

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

FINANCIAL AUDIT

For the Year Ended June 30, 2014

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

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

FINANCIAL AUDIT

For the Year Ended June 30, 2014

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

FINANCIAL AUDIT

For the Year Ended June 30, 2014

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DEPARTMENT OF CENTRAL MANAGEMENT SERVICES**

FINANCIAL AUDIT

For the Year Ended June 30, 2014

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

AGENCY OFFICIALS

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

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

AGENCY OFFICIALS (Continued)

Chief Internal Auditor

Ms. Deborah Abbott

AGENCY OFFICE LOCATION

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

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

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying financial statements of the State of Illinois, Department of Central Management Services as of June 30, 2014 and for the year then ended, was performed by Sikich LLP.

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

SUMMARY OF FINDINGS

The auditors identified matters involving the Department's internal control over financial reporting that they considered to be significant deficiencies. The significant deficiency is described in the accompanying Schedule of Findings listed in the table of contents as finding 2014-001, inadequate security and control over the midrange environment.

EXIT CONFERENCE

The Department waived an exit conference. The response to the recommendation was provided by Ms. Simone McNeil, Acting Director, in a letter dated December 18, 2014.

INDEPENDENT AUDITOR'S REPORT

Honorable William G. Holland
Auditor General
State of Illinois

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of Illinois, Department of Central Management Services, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the State of Illinois, Department of Central Management Services' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information for the State of Illinois, Department of Central Management Services, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2, the financial statements of the State of Illinois, Department of Central Management Services 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, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the State of Illinois, Department of Central Management Services. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2014, and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Defined Benefit Other Postemployment Benefit Plans – Schedule of Funding Progress on page 47 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Illinois, Department of Central Management Services' basic financial statements. The combining and individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements are 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 January 13, 2015 on our consideration of the State of Illinois, Department of Central Management Services' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Illinois, Department of Central Management Services' internal control over financial reporting 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 agency management, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Silich LLP". The signature is written in a cursive, flowing style.

Springfield, Illinois
January 13, 2015

State of Illinois
Department of Central Management Services

Statement of Net Position

June 30, 2014 (Expressed in Thousands)

	Governmental Activities	Business-Type Activities	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
Unexpended appropriations	\$ 144,587	\$ -	\$ 144,587
Cash equity with State Treasurer	151,764	5,361	157,125
Cash and cash equivalents	78,545	856	79,401
Securities lending collateral equity of State Treasurer	66,107	2,270	68,377
Receivables, net:			
Intergovernmental	2,571	155	2,726
Other	34,831	339	35,170
Due from other Department funds	24	-	24
Due from other Department fiduciary funds	136	-	136
Due from other State funds	761,451	-	761,451
Due from State of Illinois component units	10,618	-	10,618
Investments	517	-	517
Inventories	1,959	-	1,959
Capital assets not being depreciated	39,249	-	39,249
Capital assets being depreciated, net	299,277	-	299,277
Total assets and deferred outflows of resources	1,591,636	8,981	1,600,617
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES			
Accounts payable and accrued liabilities	1,785,348	4,033	1,789,381
Intergovernmental payables	9,146	5	9,151
Due to Department funds	-	24	24
Due to other State fiduciary funds	1,742	-	1,742
Due to other State funds	627	13	640
Due to State of Illinois component units	152	-	152
Obligations under securities lending of State Treasurer	66,107	2,270	68,377
Unearned revenue	5,641	19	5,660
Long term obligations:			
Due within one year	119,781	-	119,781
Due subsequent to one year	11,029,518	125	11,029,643
Total liabilities and deferred inflows of resources	13,018,062	6,489	13,024,551
NET POSITION			
Net investment in capital assets	323,208	-	323,208
Restricted for debt service	4,230	-	4,230
Unrestricted	(11,753,864)	2,492	(11,751,372)
Total net position	\$ (11,426,426)	\$ 2,492	\$ (11,423,934)

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, 2014 (Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues Charges for Services	Net (Expense) Revenues and Changes in Net Position		Total
			Governmental Activities	Business-Type Activities	
Primary government					
Governmental activities					
General government					
Education	\$ 3,342,166	\$ 3,029,609	\$ (312,557)		\$ (312,557)
Employment and economic development	1,302,419	-	(1,302,419)		(1,302,419)
Health and social services	18,456	-	(18,456)		(18,456)
Transportation	556,072	-	(556,072)		(556,072)
Public protection and justice	173,203	-	(173,203)		(173,203)
Environment and business regulation	616,093	-	(616,093)		(616,093)
Total governmental activities	126,080	-	(126,080)		(126,080)
Total governmental activities	6,134,489	3,029,609	(3,104,880)		(3,104,880)
Business type activities					
Insurance program	\$ 33,682	\$ 35,324		\$ 1,642	1,642
Total business-type activities	33,682	35,324		1,642	1,642
Total primary government	\$ 6,168,171	\$ 3,064,933		\$ (3,103,238)	
General revenues					
Appropriations from State Resources			1,658,163	-	1,658,163
Reappropriation to future year(s)			(6,982)	-	(6,982)
Lapsed appropriations			(11,963)	-	(11,963)
Receipts collected and transmitted to State Treasury			(1,600)	-	(1,600)
Interest and investment income			893	1	894
Other revenues			35,990	42	36,032
Capital contributions			9,481	-	9,481
Transfers-out			(6)	-	(6)
Total general revenues and transfers			1,683,976	43	1,684,019
Change in net position			(1,420,904)	1,685	(1,419,219)
Net position, July 1, 2013			(10,005,522)	807	(10,004,715)
Net position, June 30, 2014			(11,426,426)	2,492	(11,423,934)

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, 2014 (Expressed in Thousands)

	<u>General Fund</u>	<u>Road Fund</u>	<u>Nonmajor funds</u>	<u>Total Governmental Funds</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
Unexpended appropriations	\$ 144,587	\$ -	\$ -	\$ 144,587
Cash equity with State Treasurer	1	-	2,040	2,041
Receivables, net:				
Other receivables	608	-	47	655
Due from other Department funds	9,594	-	2	9,596
Due from other State funds	-	-	27	27
Total assets and deferred outflows of resources	<u>154,790</u>	<u>-</u>	<u>2,116</u>	<u>156,906</u>
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES				
Accounts payable and accrued liabilities	1,726	-	234	1,960
Intergovernmental payables	60	-	6	66
Due to other Department funds	1,506,461	78,630	482	1,585,573
Due to other State funds	12	-	31	43
Due to State of Illinois component units	-	-	1	1
Deferred inflow of resources	603	-	-	603
Matured portion of long-term obligations	412	-	-	412
Total liabilities and deferred inflows of resources	<u>1,509,274</u>	<u>78,630</u>	<u>754</u>	<u>1,588,658</u>
FUND BALANCES (DEFICITS)				
Committed - General Government	-	-	1,362	1,362
Unassigned	(1,354,484)	(78,630)	-	(1,433,114)
Total fund balances (deficits)	<u>(1,354,484)</u>	<u>(78,630)</u>	<u>1,362</u>	<u>(1,431,752)</u>
Total liabilities, deferred inflows of resources and fund balances (deficits)	<u>\$ 154,790</u>	<u>\$ -</u>	<u>\$ 2,116</u>	<u>\$ 156,906</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, 2014
(Expressed in Thousands)

Total fund balances-governmental funds		\$ (1,431,752)
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		31,183
Revenues in the Statement of Activities that do not provide current financial resources are deferred in the funds.		603
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.		470,192
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	(1,411)	
Auto liability claims	(3,178)	
Net other postemployment benefit obligations	<u>(10,492,063)</u>	
		<u>(10,496,652)</u>
Net position of governmental activities		\$ <u>(11,426,426)</u>

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, 2014 (Expressed in Thousands)

	<u>General Fund</u>	<u>Road Fund</u>	<u>Nonmajor funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Other	\$ 1,589	\$ -	\$ 3,891	\$ 5,480
Other charges for services	-	-	289	289
Total revenues	<u>1,589</u>	<u>-</u>	<u>4,180</u>	<u>5,769</u>
EXPENDITURES				
General government	160,045	-	3,838	163,883
Education	655,678	-	-	655,678
Employment and economic development	24,222	-	-	24,222
Health and social services	285,329	-	-	285,329
Transportation	24,323	124,312	-	148,635
Public protection and justice	297,327	-	-	297,327
Environment and business regulation	61,874	-	-	61,874
Capital outlays	-	-	5,543	5,543
Total expenditures	<u>1,508,798</u>	<u>124,312</u>	<u>9,381</u>	<u>1,642,491</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,507,209)</u>	<u>(124,312)</u>	<u>(5,201)</u>	<u>(1,636,722)</u>
OTHER SOURCES (USES) OF FINANCIAL RESOURCES				
Appropriations from State resources	1,514,371	131,300	12,492	1,658,163
Reappropriation to future year(s)	-	-	(6,982)	(6,982)
Lapsed appropriations	(1,436)	(10,527)	-	(11,963)
Receipts collected and transmitted to State Treasury	(1,600)	-	-	(1,600)
Transfers-in	205	-	-	205
Transfers-out	-	-	(211)	(211)
Net other sources (uses) of financial resources	<u>1,511,540</u>	<u>120,773</u>	<u>5,299</u>	<u>1,637,612</u>
Net change in fund balances	4,331	(3,539)	98	890
Fund balances (deficits), July 1, 2013	<u>(1,358,815)</u>	<u>(75,091)</u>	<u>1,264</u>	<u>(1,432,642)</u>
Fund Balances (Deficits), June 30, 2014	<u>\$ (1,354,484)</u>	<u>\$ (78,630)</u>	<u>\$ 1,362</u>	<u>\$ (1,431,752)</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, 2014
(Expressed in Thousands)

Net change in fund balances	\$	890
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. This is the amount by which capital outlays exceeded depreciation in the current period.</p>		43
<p>Some capital assets were transferred from other State agencies.</p>		6,656
<p>Internal service funds are used to charge the costs of certain activities to individual funds. The net revenue of the internal service funds is reported as governmental activities in the Statement of Activities.</p>		10,972
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. This amount represents the increase in unavailable revenue over the prior year.</p>		22
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. Below are such activities.</p>		
<p>Increase in compensated absences obligation</p>		(79)
<p>Increase in auto liability claims</p>		(383)
<p>Increase in net other postemployment benefit obligations</p>		(1,439,025)
		(1,439,025)
Change in net position of governmental activities	\$	(1,420,904)

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, 2014 (Expressed in Thousands)

	Governmental Activities - Internal Service Funds	Business-Type Activities - Enterprise Fund
		Local Government Health Insurance Reserve Fund
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Cash equity with State Treasurer	\$ 149,723	\$ 5,361
Cash and cash equivalents	78,545	856
Securities lending collateral equity of State Treasurer	66,107	2,270
Receivables, net:		
Intergovernmental	2,571	155
Other	34,176	339
Due from other Department fiduciary funds	136	-
Due from other Department funds	1,615,202	-
Due from other State funds	761,424	-
Due from State of Illinois component units	10,618	-
Investments	517	-
Inventories	1,959	-
Total current assets and deferred outflows of resources	2,720,978	8,981
Capital assets not being depreciated	38,720	-
Capital assets being depreciated, net	268,623	-
Total noncurrent assets and deferred outflows of resources	307,343	-
Total assets and deferred outflows of resources	3,028,321	8,981
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		
Accounts payable and accrued liabilities	1,783,388	4,033
Intergovernmental payables	9,080	5
Due to other State fiduciary funds	1,742	-
Due to other Department funds	39,201	24
Due to other State funds	584	13
Due to State of Illinois component units	151	-
Obligations under securities lending of State Treasurer	66,107	2,270
Unearned Revenue	5,641	19
Current portion of long-term obligations	118,572	-
Total current liabilities and deferred inflows of resources	2,024,466	6,364
Noncurrent portion of long-term obligations	533,663	125
Total liabilities and deferred inflows of resources	2,558,129	6,489
NET POSITION		
Net investment in capital assets	292,025	-
Restricted for debt service	4,230	-
Unrestricted	173,937	2,492
Total net position	\$ 470,192	\$ 2,492

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, 2014 (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	\$ 3,094,841	\$ 35,324
Other	4,169	-
Total operating revenues	<u>3,099,010</u>	<u>35,324</u>
OPERATING EXPENSES		
Cost of sales and services	477,519	-
Claims and judgments	2,303,562	-
Benefit payments and refund	-	32,411
General and administrative	88,980	1,268
Depreciation	25,791	3
Other	14,337	-
Total operating expenses	<u>2,910,189</u>	<u>33,682</u>
Operating income (loss)	188,821	1,642
NONOPERATING REVENUES (EXPENSES)		
Interest and investment income	893	16
Interest expense	(213,107)	(15)
Other revenue	26,341	51
Other expense	(283)	(9)
Income (loss) before contributions	2,665	1,685
Contributions of capital assets	8,307	-
Change in net position	10,972	1,685
Net position, July 1, 2013	459,220	807
Net position, June 30, 2014	<u>\$ 470,192</u>	<u>\$ 2,492</u>

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, 2014 (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	\$ 162,562	\$ 35,388
Cash received from transactions with other funds	3,179,449	-
Cash payments to suppliers for goods and services	(2,936,159)	(34,804)
Cash payments to employees for services	(135,899)	(1,214)
Cash payments for workers compensation	(145,709)	-
Cash receipts from other operating activities	70,967	596
Net cash provided (used) by operating activities	<u>195,211</u>	<u>(34)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers-out to other funds	-	(13)
Grants received	32,764	48
Other noncapital financing activities	(270,203)	-
Net cash provided (used) by noncapital financing activities	<u>(237,439)</u>	<u>35</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(25,284)	-
Principal paid on capital debt	(3,350)	-
Interest paid on capital debt	(1,031)	-
Net cash (used) by capital and related financing activities	<u>(29,665)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends on investments	941	15
Net cash provided (used) by investing activities	<u>941</u>	<u>15</u>
Net increase (decrease) in cash and cash equivalents	<u>(70,952)</u>	<u>16</u>
Cash and cash equivalents, July 1, 2013	299,220	6,201
CASH AND CASH EQUIVALENTS, JUNE 30, 2014	<u>228,268</u>	<u>6,217</u>
Reconciliation of cash and cash equivalents to the statement of net assets:		
Total cash and cash equivalents per the statement of net assets	78,545	5,361
Add: cash equity with State Treasurer	149,723	856
CASH AND CASH EQUIVALENTS, JUNE 30, 2014	<u>228,268</u>	<u>6,217</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
OPERATING INCOME (LOSS)	<u>188,821</u>	<u>1,642</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	25,791	3
Provision for uncollectible accounts	(206)	-
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(4,854)	38
(Increase) decrease in intergovernmental receivables	18,905	63
(Increase) decrease in due from other funds	152,746	-
(Increase) decrease in due from State of Illinois component units	18,978	-
(Increase) decrease in inventory	(60)	-
Increase (decrease) in accounts payable and accrued liabilities	(261,998)	(1,796)
Increase (decrease) in intergovernmental payables	2,959	3
Increase (decrease) in due to other State funds	5,728	(1)
Increase (decrease) in due to State of Illinois component units	(1,762)	-
Increase (decrease) in deferred revenues	4,007	1
Increase (decrease) in other liabilities	46,156	13
Total adjustments	<u>6,390</u>	<u>(1,676)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 195,211</u>	<u>(34)</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Loss on sale of equipment	\$ (72)	-
Transfer of capital assets, net of related debt, to/from other State funds	\$ 8,307	-

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, 2014 (Expressed in Thousands)

	Pension (and Other Employee Benefit) Trust Funds	Agency Funds
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Cash equity with State Treasurer	\$ 52,205	\$ 11,630
Cash and cash equivalents	15,423	600
Investments:		
Equities	2,943,922	-
Fixed income	293,263	-
Other	874,090	-
Intergovernmental receivables	375	-
Other receivables, net	21,188	1,837
Loans and note receivable, net	31,413	-
Securities lending collateral equity of State Treasurer	19,653	4,261
Total assets and deferred inflows of resources	\$ 4,251,532	\$ 18,328
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		
Accounts payable and accrued liabilities	189,604	14,031
Intergovernmental payables	66	36
Due to other Department funds	136	-
Due to other State fiduciary funds	22	-
Due to other State funds	55	-
Obligations under securities lending of State Treasurer	19,653	4,261
Current portion of long-term obligations	5	-
Noncurrent portion of long-term obligations	241	-
Total liabilities and deferred inflows of resources	\$ 209,782	\$ 18,328
NET POSITION		
Held in trust for:		
Other employee benefits	(106,168)	
Deferred compensation benefits	4,147,918	
Total net position	\$ 4,041,750	

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, 2014 (Expressed in Thousands)

	Pension (and Other Employee Benefit) Trust Funds
Deposits/Contributions:	
Employer	\$ 81,686
State	94,829
Members/participants	443,365
Other contributions	23,109
Total contributions	<u>642,989</u>
Investment income:	
Interest, dividends and other investment income	147,912
Net appreciation of investments	414,251
Reimbursement of investment expenses not separable from investment income	3,077
Less: investment expense	(2,072)
Net investment income	<u>563,168</u>
Total additions	<u>1,206,157</u>
Deductions:	
Benefit payments	699,212
Refunds	37
Other Deductions	827
General and administration	25,621
Total deductions	<u>725,697</u>
Net additions (deductions)	480,460
Net position, July 1, 2013	<u>3,561,290</u>
Net position, June 30, 2014	<u>\$ 4,041,750</u>

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

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

Notes to Financial Statements

June 30, 2014

(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; supplies telecommunications, data processing, videoconferencing, and office automation; 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 and the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government.

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

(b) Basis of Presentation

The financial statements of the State of Illinois, Department of Central Management Services, are intended to present the financial position, the changes in financial position, and the cash flows, when applicable, of only that portion of the governmental activities, each major fund of the State of Illinois, 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, 2014, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

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

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

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

Notes to Financial Statements

June 30, 2014

which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The Department administers the following major governmental funds (or portions thereof in the case of shared funds) - see the State of Illinois' Comprehensive Annual Financial Report:

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.

Road – This fund accounts for the activities of the Department for payment to the Health Insurance Reserve Fund for allocated costs associated with providing medical and dental benefits for State employees paid from the Road Fund.

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.

Capital Projects – These funds account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including acquisition or construction of capital facilities and other assets. Such resources are derived principally from proceeds of general and special obligation bond issues and certificates of participation.

Proprietary Fund Types:

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

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

Fiduciary Fund Types:

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

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

Notes to Financial Statements

June 30, 2014

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

(c) *Measurement Focus and Basis of Accounting*

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus (except for agency funds which do not have a measurement focus) and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. Nonexchange 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 Fund, the Road Fund and the Capital Development Fund, a nonmajor governmental fund, represent only the portion of shared funds that can be directly attributed to the operations of the Department. Financial statements for total fund operations of the shared State funds are presented in the State of Illinois' Comprehensive Annual Financial Report.

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

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June 30, 2014

Unexpended Appropriations

This “asset” account represents lapse period warrants issued between July and August annually in accordance with the Statewide Accounting Management System (SAMS) records plus any liabilities relating to obligations re-appropriated to the subsequent fiscal year.

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.

Reappropriation to Future Year(s)

This contra revenue account reduces current year’s appropriations by the amount of the reappropriation to reflect the State’s realignment of the budgetary needs to the subsequent year and avoid double counting of a portion of the appropriation in more than one fiscal year.

Receipts Collected and Transmitted to State Treasury

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

Amount of SAMS Transfers-In

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

(e) *Eliminations*

Eliminations have been made in the government-wide statement of net position to minimize the “grossing-up” effect on assets and liabilities within the governmental activities column of the Department. As a result, amounts reported in the governmental funds balance sheet as interdepartmental interfund 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.

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Notes to Financial Statements

June 30, 2014

(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) Interfund Transactions

The Department has the following types of interfund 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. Interfund services provided and used are reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as interfund 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 nonoperating 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 estimated fair value at the time received. Capital assets are depreciated using the straight-line method.

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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

(j) *Compensated Absences*

The liability for compensated absences reported in the government-wide, proprietary and fiduciary fund financial statements consists of unpaid, accumulated vacation and sick leave balances for Department employees. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The liability has been calculated based on the employees' current salary level and includes salary related costs (e.g., Social Security and Medicare taxes).

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

(k) *Fund Balances*

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

Nonspendable- 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.

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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.

(l) Net Position

In the government-wide and proprietary 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 legally restricted assets by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the State's policy to use restricted resources first, then unrestricted resources when they are needed.

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

The government-wide statement of net position reports \$4.214 million of restricted assets which are restricted by enabling legislation.

(m) 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.

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DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

Notes to Financial Statements

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(n) State Employees' Deferred Compensation Plan Administration

By State statute the Department is responsible for administering the State Employees' Deferred Compensation Plan (Plan). The Department contracts with Invesco Ltd. for investment management services and T. Rowe Price Retirement Plan Services, Inc. to provide recordkeeping services for the Plan. Additional investment management fees are paid to mutual fund managers before any dividends are declared in accordance with customary industry practices. Asset charges intended to cover the costs of administration, including investment management and recordkeeping fees, are computed monthly and withdrawn from participants' accounts on a monthly or quarterly basis. Effective January 1, 2007, the annual fee charged to participants was limited to a maximum of \$30. This fee has been waived for 2008 through 2014.

(o) 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.

(p) New Accounting Pronouncements

Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities* is effective for the Department beginning with its year end June 30, 2014. The statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes as outflows of resources (expenses or expenditures) or inflows of resources (revenue) certain items that were previously reported as assets and liabilities. The implementation of the provisions of this Statement resulted in changes to the presentation of deferred outflows of resources and deferred inflows of resources; however, the implementation had no financial impact on the Department's net position or results of operations.

Effective for the year ending June 30, 2014 the Department adopted Governmental Accounting Standards Board Statement No. 66, *Technical Corrections – amendment of GASB Statements No. 10 and No. 62*, which resolves conflicting guidance surrounding differences in Statement No. 54 and No. 10 regarding the reporting of risk financing activities. Also, resolves differences between Statements No. 62 and No. 13 regarding the reporting of certain operating lease transactions and No. 48 regarding the reporting of the acquisition of a loan or group of loans. There was no material impact on the Department's financial statements as a result of adopting this Statement.

Effective for the year ending June 30, 2014 the Department adopted Governmental Accounting Standards Board Statement No. 67, *Financial Reporting for Pension Plans*, which provided guidance relating to the accounting and financial reporting surrounding how pension costs and

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obligations are measured and reported in audited external financial reports. There was no material impact on the Department's financial statements as a result of adopting this Statement.

Effective for the year ending June 30, 2014 the Department adopted Governmental Accounting Standards Board Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which provides guidance relating to nonexchange financial guarantees when it is more likely than not that the government will be required to make a payment on the guarantee. There was no material impact on the Department's financial statements as a result of adopting this Statement.

(q) Future Adoption of GASB Statements

Effective for the year ending June 30, 2015 the Department will adopt Governmental Accounting Standards Board Statement No. 68, *Financial Reporting for Pension, Amendment of GASB Statement No. 67*, which provides guidance relating to revised recognition, measurement, and disclosure requirements for all employers. The Department has not yet determined the impact on the Department's financial statements as a result of adopting this Statement.

Effective for the year ending June 30, 2015 the Department will adopt Governmental Accounting Standards Board Statement No. 69, *Government Combinations and Disposals of Government Operations*, which provides guidance relating to combinations in which no consideration is provided and combinations in which consideration is provided. The Department has not yet determined the impact on the Department's financial statements as a result of adopting this Statement.

Effective for the year ending June 30, 2015 the Department will adopt Governmental Accounting Standards Board Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, which provides guidance relating to recognition of deferred outflows of resources for pension contributions made subsequent to the measurement date of beginning net pension liabilities. The Department has not yet determined the impact on the Department's financial statements as a result of adopting this Statement.

(3) Deposits and Investments

(a) Deposits

The State Treasurer is the custodian of the State's cash and cash equivalents for funds maintained in the State Treasury. Deposits in the custody of the State Treasurer are pooled and invested with other State funds in accordance with the investment authority and guidelines for the Treasurer's published investment policy found in Section 22.8 of the Deposit of State Moneys Act (15 ILCS 520/11). Funds held by the State Treasurer have not been categorized as to credit risk because the Department does not own individual securities. Detail on the nature of these deposits and investments is available within the State of Illinois' Comprehensive Annual Financial Report.

Funds maintained outside the State Treasury have independent statutory authority to manage their own deposits and investments. The investment authority of the Illinois State Board of

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Investments (“ISBI”) is governed by the Illinois Pension Code (40 ILCS 5). ISBI has published investment policies incorporating these guidelines.

The carrying amount and bank balance of cash deposits held outside of the State Treasury at June 30, 2014 was \$1.454 million which was uninsured and uncollateralized.

(b) Investments

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

As of June 30, 2014, the Department had the following fixed income investments outside of the State Treasury:

	Book Value (Thousands)	Fair Value (Thousands)	Weighted Average Maturity (Years)
<i>Governmental Activities</i>			
Money market mutual funds	\$ 2,768	\$ 2,768	0.066
Public Treasurer’s Investment Pool	74,323	74,323	0.090
Total fixed income investments	\$ 77,091	\$ 77,091	
<i>Fiduciary Funds</i>			
Money market mutual funds	\$ 84,270	\$ 84,270	0.159
Debt mutual funds	118,363	118,363	7.700
Bond mutual funds	93,153	93,153	7.340
Public Treasurer’s Investment Pool	13,500	13,500	0.090
Total fixed income investments	309,286	309,286	
<i>Business-Type Activities</i>			
Public Treasurer’s Investment Pool	856	856	0.090
Total fixed income investments	\$ 856	\$ 856	

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Interest Rate Risk: The Department does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk: The Department does not have a formal investment policy that limits investment choices. The Governmental Activities money market mutual funds were rated Aaa mf by Moody's. The Fiduciary Funds money market mutual funds were unrated. The Fiduciary Funds debt mutual funds were also unrated.

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.

(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:

<i>Governmental Activities</i>	<u>Deposits</u>	<u>Investments</u>
Amounts Per Note 3(a)	\$ 1,454	\$ 77,091
Cash equivalents	77,091	(77,091)
Amounts per Statement of Net Position	<u><u>\$ 78,545</u></u>	<u><u>\$ -</u></u>
<i>Fiduciary Funds</i>	<u>Deposits</u>	<u>Investments</u>
Amounts Per Note 3(b)	\$ -	\$ 309,286
Cash equivalents	16,023	(16,023)
Equity mutual funds	-	1,526,350
Blended mutual funds	-	781,724
Annuities	-	744
Equity trust funds	-	635,848
Guaranteed investment contracts	-	873,346
Amounts per Statement of Fiduciary Net Position	<u><u>\$ 16,023</u></u>	<u><u>\$ 4,111,275</u></u>

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<i>Business-type Activities</i>	Deposits	Investments
Amounts Per Note 3(b)	\$ -	\$ 856
Cash equivalents	856	(856)
Amounts per Statement of Net Position	\$ 856	\$ -

(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 2014 and 2013, Deutsche Bank AG lent U.S. Agency Securities, U.S. Treasury securities and U.S. agency securities and received as collateral U.S. dollar denominated cash. Borrowers were required to deliver collateral for each loan equal to at least 100% of the 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 years 2014 and 2013 on the amount of the 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. Moreover, there were no losses during fiscal years 2014 and 2013 resulting from a default of the borrowers or Deutsche Bank AG.

During fiscal years 2014 and 2013, the State Treasurer and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in repurchase agreements with approved counterparties collateralized with securities approved by 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 invested in repurchase agreements and the fair value of securities on loan for the State Treasurer as of June 30, 2014 were \$5,758,768,925 and \$5,727,657,697, respectively. The securities lending collateral invested in repurchase agreements and the fair value of securities on loan for the State Treasurer as of June 30, 2013 were \$6,763,623,576 and \$6,742,892,101, respectively.

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In accordance with GASB Statement No. 28, paragraph 9, the Office of the State Treasurer has allocated the assets and obligations arising from securities lending agreements as of June 30, 2014 to the various funds of the State. The total allocated to the Department was \$92.291 million at June 30, 2014.

(4) Interfund Balances and Activity

(a) Balances Due to/from Other Funds

The following balances (amounts expressed in thousands) at June 30, 2014 represent amounts due from other Department and State of Illinois funds.

<u>Fund</u>	<u>Due from</u>			<u>Description/Purpose</u>
	<u>Other Department Funds</u>	<u>Other Department Fiduciary Funds</u>	<u>Other State Funds</u>	
General	\$ 9,594	\$ -	\$ -	Due from other Department funds for reimbursement of advances on expenditures incurred.
Non-major governmental funds	2	-	27	Due from other Department funds and other State funds for sales of federal surplus property.
Internal service funds	1,615,202	136	761,424	Due from other Department funds, other Department fiduciary funds and other State funds for services provided.
	<u>\$ 1,624,798</u>	<u>\$ 136</u>	<u>\$ 761,451</u>	

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The following balances (amounts expressed in thousands) at June 30, 2014 represent amounts due to other Department and State of Illinois funds.

<u>Fund</u>	<u>Due to</u>			<u>Description/Purpose</u>
	<u>Other Department Funds</u>	<u>Other State Funds</u>	<u>Other State Fiduciary Funds</u>	
General	\$ 1,506,461	\$ 12	\$ -	Due to other Department funds for internal service fund services received including healthcare claims and other State funds for services received.
Road	78,630	-	-	Due to other Department internal service funds for payment of healthcare claims.
Non-major governmental funds	482	31	-	Due to other Department funds for internal service fund services received, other State funds for services received.
Internal service funds	39,201	584	1,742	Due to other Department funds for internal service fund services received, other State funds for services received and other State fiduciary funds for retirement contributions.
Fiduciary funds	136	55	22	Due to other Department funds for internal service fund services received, other State funds for services received and other State fiduciary funds for retirement contributions.
Non-major enterprise fund	24	13	-	Due to other Department funds for internal service fund services received, other State funds for services received and other State fiduciary funds for retirement contributions.
	<u>\$ 1,624,934</u>	<u>\$ 695</u>	<u>\$ 1,764</u>	

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(b) Transfers to/from Other Funds

Interfund transfers in (amounts expressed in thousands) from other State funds for the year ended June 30, 2014, were as follows:

<u>Fund</u>	<u>Transfers in from Other Department Funds</u>	<u>Description/Purpose</u>
General	\$ (205)	Transfer from other Department funds pursuant to statute.

Interfund transfers out (amounts expressed in thousands) to other State funds for the year ended June 30, 2014, were as follows:

<u>Fund</u>	<u>Transfers out to</u>		<u>Description/Purpose</u>
	<u>Other Department Funds</u>	<u>Other State Funds</u>	
Non-major governmental funds	\$ (205)	\$ (6)	Transfer to other Department and State funds pursuant to statute.

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(5) Capital Assets

Capital asset activity (amounts expressed in thousands) for the year ended June 30, 2014 was as follows:

	<u>Balance July 1, 2013,</u>	<u>Additions</u>	<u>Deletions</u>	<u>Net Transfers</u>	<u>Balance June 30, 2014</u>
Governmental activities:					
Capital assets not being depreciated:					
Land and land improvements	\$ 38,834	\$ -	\$ -	\$ 60	\$ 38,894
Nondepreciable historical treasures and works of art	4	-	-	-	4
Construction in Progress	48,686	10,519	-	(58,854)	351
Total capital assets not being depreciated	<u>87,524</u>	<u>10,519</u>	<u>-</u>	<u>(58,794)</u>	<u>39,249</u>
Capital assets being depreciated:					
Site improvements	3,889	-	-	-	3,889
Buildings and building improvements	641,455	-	-	42,880	684,335
Equipment	186,416	18,178	17,975	310	186,929
Depreciable historical treasures and works of art	970	-	-	-	970
Infrastructure	-	-	-	58,663	58,663
Other Intangible Assets-Fiber Optic Rights	1,711	2,130	-	-	3,841
Total capital assets being depreciated	<u>834,441</u>	<u>20,308</u>	<u>17,975</u>	<u>101,853</u>	<u>938,627</u>
Less accumulated depreciation:					
Site improvements	3,302	175	-	-	3,477
Buildings and building improvements	436,492	13,004	-	33,563	483,059
Equipment	156,729	10,776	17,848	171	149,828
Depreciable historical treasures and works of art	970	-	-	-	970
Infrastructure	-	1,467	-	-	1,467
Other Intangible Assets-Fiber Optic Rights	162	387	-	-	549
Total accumulated depreciation	<u>597,655</u>	<u>25,809</u>	<u>17,848</u>	<u>33,734</u>	<u>639,350</u>
Total capital assets being depreciated, net	<u>236,786</u>	<u>(5,501)</u>	<u>127</u>	<u>68,119</u>	<u>299,277</u>
Governmental activity capital assets, net	<u>\$ 324,310</u>	<u>\$ 5,018</u>	<u>\$ 127</u>	<u>\$ 9,325</u>	<u>\$ 338,526</u>
Business-Type activities:					
Capital assets being depreciated:					
Equipment	\$ 16	\$ -	\$ -	\$ (16)	\$ -
Less accumulated depreciation:					
Equipment	<u>4</u>	<u>3</u>	<u>-</u>	<u>(7)</u>	<u>-</u>
Business-Type activities capital assets, net	<u>\$ 12</u>	<u>\$ (3)</u>	<u>\$ -</u>	<u>\$ (9)</u>	<u>\$ -</u>

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Depreciation expense for governmental activities (amounts expressed in thousands) for the year ended June 30, 2014 was charged to functions as follows:

Governmental activities – General Government	\$ <u>25,791</u>
Business-type activities	\$ <u>3</u>

(6) Long-Term Obligations

(a) Changes in Long-Term Obligations

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

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014	Amounts Due Within One Year
Governmental activities:					
Compensated absences	\$ 12,730	\$ 8,379	\$ 8,590	\$ 12,519	\$ 1,281
Certificates of participation	18,865	-	3,350	15,515	3,545
Workers' compensation claim obligations	579,166	200,115	153,669	625,612	113,854
Auto liability claim obligations	2,954	1,320	684	3,590	1,101
Net other postemployment benefit obligation	9,053,038	1,439,025	-	10,492,063	-
Total governmental activities	\$ 9,666,753	\$ 1,648,839	\$ 166,293	\$ 11,149,299	\$ 119,781
Business-Type activities:					
Compensated absences	\$ 112	\$ 64	\$ 51	\$ 125	\$ -
Total business-type activities	\$ 112	\$ 64	\$ 51	\$ 125	\$ -
Fiduciary funds:					
Compensated absences	\$ 253	\$ 110	\$ 117	\$ 246	\$ 5
Total fiduciary funds	\$ 253	\$ 110	\$ 117	\$ 246	\$ 5

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

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(b) Certificates of participation

The Department has financed the purchase of office buildings and land. The office buildings have a historical cost and accumulated depreciation of \$48.740 and \$19.851 million, respectively and the land has a historic cost of \$2.794 million. This non-state issued certificate is sold by a private concern and is repaid by Department appropriations pursuant to an installment purchase agreement. Future debt service requirements under certificates of participation (amounts expressed in thousands) at June 30, 2014, are as follows:

Year Ending			
June 30	Principal	Interest	Total
2015	3,545	825	4,370
2016	3,755	606	4,361
2017	3,990	373	4,363
2018	4,225	126	4,351
	<u>\$ 15,515</u>	<u>\$ 1,930</u>	<u>\$ 17,445</u>

(7) Risk Management

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

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

The Department's risk financing of auto liability for the State's non-Department of Transportation liability, \$3.590 million, has been determined using an estimate of claims outstanding. Claims that will be liquidated 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 \$.412 million. The remaining portion of the liability, \$3.178 million, as of June 30, 2014, is included in the Department-wide financial statements and is expected to be paid from future resources of the General Fund.

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The Department's workers' compensation liability, \$625.612 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 \$615.087 million. Payments to the Health Insurance Reserve Fund are based on estimates of amounts needed to pay prior year unprocessed and current year claims.

The following is a reconciliation of the Department's claims liabilities for the years June 30, 2013 and June 30, 2014 (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:				
2013				
Auto Liability	\$ 4,800	\$ 1,167	\$ 3,013	\$ 2,954
Workers' Compensation	563,880	141,170	125,884	579,166
Health claims incurred but not reported	666,536	678,250	642,590	702,196
Total:	<u>\$ 1,235,216</u>	<u>\$ 820,587</u>	<u>\$ 771,487</u>	<u>\$ 1,284,316</u>
2014				
Auto Liability	\$ 2,954	\$ 1,320	\$ 684	\$ 3,590
Workers' Compensation	579,166	200,115	153,669	625,612
Health claims incurred but not reported	702,196	822,379	909,488	615,087
Total:	<u>\$ 1,284,316</u>	<u>\$ 1,023,814</u>	<u>\$ 1,063,841</u>	<u>\$ 1,244,289</u>

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(8) Pension Plan

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

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

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

(9) Post-employment Benefits

Plan Description: The State Employees Group Insurance Act of 1971 ("Act"), as amended, authorizes the State to provide health, dental, vision, and life insurance benefits for certain retirees and their dependents. Substantially all State and university component unit employees become eligible for these other postemployment benefits ("OPEB") if they eventually become annuitants of one of the State sponsored pensions plans. The Department of Central Management Services administer these benefits for annuitants with the assistance of the public retirement systems sponsored by State (General Assembly Retirement Systems, Judges Retirement Systems, State Employees Retirement System, Teachers Retirement Systems, and the State Universities Retirement System). The portions of the Act related to other postemployment benefits establishes a cost-sharing multiple-employer defined benefit OPEB plan with a special funding situation for employees of the State's component unit universities. The plan does not issue a stand-alone financial report.

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

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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 the limitations established in the Act. Therefore, the benefits provided and contribution amounts are subject to periodic change. 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: In accordance with the Act, the State contributes towards the cost of an annuitant's coverage under the basic program of health, dental, and vision benefits an amount equal to five percent of that cost for each full year of creditable service up to a maximum of one hundred percent for an annuitant with twenty or more years of creditable service. For fiscal year 2014, the annual cost of the basic program of group health, dental, and vision benefits before the State's contribution was \$8,869.20 (\$4,542.96 if Medicare eligible) if the annuitant chose benefits provided by a health maintenance organizations and \$11,535.84 (\$4,421.04) 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.

For current employees, contributions are dependent upon annual salary and whether or not the employee chooses to receive benefits through a health maintenance organization. Current employee contribution rates to the plan are as follows:

Employee Annual Salary	Annual Employee Health, Dental and Vision Contribution Requirements	
	Benefits Through a Health Maintenance Organization	Benefits Provided Through Other Than a Health Maintenance Organization
	Maintenance Organization	Maintenance Organization
\$30,200 and below	\$816	\$1,116
\$30,201 - \$45,600	\$1,032	\$1,332
\$45,601 - \$60,700	\$1,236	\$1,524
\$60,701 - \$75,900	\$1,428	\$1,728
\$75,901 - \$100,000	\$1,644	\$1,944
\$100,000 - and above	\$2,232	\$2,532

The State's AOEPEBC for the current year and related information (amounts expressed in thousands) are s follows:

Actuarially required contributions ("ARC")	\$	2,238,820
Plus: Interest on net other postemployment benefit obligation ("NOPEBO")	\$	407,387
Adjustment to the ARC	\$	(301,768)
Annual other postemployment benefits cost	\$	2,344,439
Benefits paid during the year	\$	(905,414)
Increase in NOPEBO	\$	1,439,025
NOPEBO at June 30, 2013	\$	9,053,038
NOPEBO at June 30, 2014	\$	10,492,063

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The State funds its annual OPEB (AOPEBC) cost on a pay-as-you-go basis. No assets are accumulated or dedicated to funding the retiree health insurance benefit. Only for financial statement purposes is the State required to report the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB Statement No. 45. The ARC represents a level funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess). The following table shows the components of the State's AOPEBC for the year and changes in the State's net OPEB obligation (NOPEBO).

The AOPEBC, the percentage of AOPEBC contributed for the year, and the NOPEBO at the end of the current fiscal year and the two preceding fiscal years (amounts expressed in thousands) are as follows:

	6/30/2014
Annual Other Post employment Benefit Cost	
6/30/2012	\$ 2,463,426
6/30/2013	\$ 2,377,627
6/30/2014	\$ 2,344,439
Percentage AOPEBC Contributed	
6/30/2012	31.56%
6/30/2013	26.27%
6/30/2014	38.62%
Net Other Postemployment Benefit Obligation	
6/30/2012	\$ 7,300,079
6/30/2013	\$ 9,053,038
6/30/2014	\$ 10,492,063

Funding Status and Funding Progress: The funding status and funding progress of the State's OPEB plan (amounts expressed in thousands) are as follows:

	(a)	(b)	(c)	(d)	(e)	(f)
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability ("AAL") Projected Unit Credit	Unfunded AAL ("UAAL") (b-a)	Funded Ratio (a/b)	Covered Payroll	UAAL as a Percentage of Covered Payroll (c/e)
6/30/2013	\$ -	34,488,085	34,488,085	0.00%	\$ 7,631,281	451.93%

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Actuarial Methods and Assumptions. Actual valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about the future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress of the State's OPEB plan, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the types of benefits provided at the time of each valuation and do not include the potential effects of legal or contractual funding limitations on the pattern of cost sharing between employer and plan members in the future. Information about actuarial methods and assumptions used in the actuarial valuation of the plan are as follows:

Actuarial valuation date of the actuarial required contributions	6/30/2013
Actuarial valuation date of the unfunded actuarial accrued liability	6/30/2013
Actuarial cost method	Proj. Unit Cost
Amortization method	Level % of pay
Remaining amortization period	30 years, Open
Asset valuation method	Fair Value
Actuarial assumptions:	
Investment rate of return*	4.50%
Projected salary increases*	4.50%
Inflation Rate	3.00%
Healthcare cost trend rate:	
	8.5% grading down .5% per year over 5 years to 6.0% and grading down to 5.6% in year 6
Medical	
Dental	7.5% grading down .5% per year over 5 years to 5.0%
Vision	3.00%
*Includes inflation rate listed	

(10) Commitments and Contingencies

(a) Operating leases

The Department leases parking lots, warehouses, and buildings, under the terms of noncancelable operating lease agreements that require the Department to make minimum lease payments plus pay a pro rata share of certain operating costs. Rent expense under operating leases was \$86.468 million for the year ended June 30, 2014.

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

Year Ending June 30	Total
2015	67,978
2016	53,458
2017	36,868
2018	24,743
2019	7,412
2020-2023	345
	\$ 190,804

(b) Fiber Optics Network

The Department entered into construction contracts for purposes of statewide fiber optic expansion. The project was authorized for \$51.895 million and was completed prior to June 30, 2014. The fiber optic network is now utilized by the Department and the rights to use the network have been leased to various organizations. As of June 30, 2014, the Department had recorded \$213 thousand in fiber optics lease income as well as \$5.4 million in deferred revenue relating to signed lease agreements of which \$362 thousand will be recognized in the next year.

(c) Federal Service Charges

The Department's internal service funds receive revenue from charges for services provided to various federal grants of the State which are subject to review and audit by federal grantor agencies. The Department believes that it is probable that a payback representing the federal share of excess fund balances will be required from the Statistical Services Revolving Fund (SSRF) and the Communications Revolving Fund (CRF) for activities in fiscal years 2013 and 2014. The Department estimates the SSRF refund may result in a payment of up to \$3.440 million and the CRF refund may result in payment of up to \$3.735 million. The Department has recorded a liability in the respective funds.

(c) Litigation

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

(11) Local Government Health Insurance Fund Risk Pool Disclosure

The Local Government Health Insurance Reserve Fund (LGHIRF) was established to provide health and dental insurance to participating local governments entities. Financial statements for the LGHIRF may be obtained from the Department. As of June 30, 2014, there were 332 local governmental entities participating with approximately 2,555 employees, 1,712 dependents and 129 retirees covered. Each participating local governmental unit is required to enter into written agreement with the

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Department of Central Management Services (DCMS). The agreement sets forth the responsibilities of both parties. The Department issues a publicly available financial report that includes financial statements and required information for LGHIRF. The financial report may be obtained from the Department of Central Management Services, 704 Stratton Office Building, Springfield, Illinois, 62706.

The responsibilities required of the Department are:

- Setting and adjusting premium rates
- Billing and collection of monthly premiums from local governmental units
- Enrollment and termination of members and dependents after notification by the local governmental unit
- Establishment of a Local Governmental Health Plan Advisory Board, consisting of seven advisors from the participating local governmental units
- Processing and payment of 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, 2014.

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, 2014, 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, 2014 is as follows:

	2014
Claims incurred and reported but not paid as of June 30	\$ 1,426
Estimated liability for claims incurred but not reported	<u>2,490</u>
Total estimated liability for future claims	<u>\$ 3,916</u>

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

	2014	2013
Payments made for benefit claims	\$34,102	\$37,688
Less: liability for unpaid claims, beginning of year	<u>5,607</u>	<u>6,759</u>
Subtotal	28,495	30,929
Add: liability for unpaid claims, end of year	<u>3,916</u>	<u>5,607</u>
Total benefit claim payments and refunds	<u>\$32,411</u>	<u>\$36,536</u>

(12) Other Post-Employment Benefit Plans

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

For both plans, plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and when the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

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

(a) Teacher Retirement Insurance Plan (TRIP)

The TRIP is accounted for in the Teacher Health Insurance Security Fund which was established to provide health insurance for the Illinois Teachers' Retirement System (TRS) annuitants and dependent beneficiaries. As of June 30, 2014 there were 995 school districts participating with approximately 62,296 annuitants and 10,695 dependents covered. 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 Teachers Health Insurance Security Fund
- Processing and payment of authorized claims
- Other matters noted in the administration of the fund

STATE OF ILLINOIS
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Notes to Financial Statements

June 30, 2014

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 0.97 percent contribution from active teachers and 0.72 percent contributions from school districts for program funding purposes

(b) Community College Insurance Plan (CCIP)

The CCIP is accounted for in the Community College Health Insurance Security Fund which was established to provide health and dental insurance for the Illinois community college retirees and dependent beneficiaries. As of June 30, 2014, there were 38 community colleges and 1 community college association participating with approximately 5,669 annuitants and 804 dependents covered. The Department works in conjunction with the State Universities Retirement Systems (SURS) to administer the CCIP.

The responsibilities required of the Department are:

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

The responsibilities required of the SURS are:

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

(13) State Employees' Deferred Compensation Plan General Description

Under State Employees' Deferred Compensation Plan (Plan) provisions, all State employees are eligible to voluntarily elect to contribute a portion of their compensation to the Plan through payroll deduction. The Plan was created in accordance with the Illinois Compiled Statutes (40 ILCS 5/24-101) and Section 457 of the Internal Revenue Code. The financial position and results of operations of the Plan for fiscal year 2014 are included in the State's Comprehensive Annual Financial Report for

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

Notes to Financial Statements

June 30, 2014

the year ended June 30, 2014. The Plan issues separate financial statements on a calendar year basis that may be obtained by writing to the Deferred Compensation Plan, 201 E. Madison, Suite 1C, P.O. Box 19208, Springfield, Illinois 62794-9208.

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

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

In compliance with Section 457 of the Internal Revenue Code, the Plan limits the amount of an individual's annual contribution to 100 percent of their annual taxable compensation, not to exceed \$17,500 (\$23,000 for participants age 50 or older) for calendar years 2014 and 2013. The State does not make any contributions to the Plan. The Plan allows participants a limited make-up on deferrals in the three years prior to the year a participant reaches normal retirement age. For each of these three years, a participant can defer the regular limit plus an additional amount based on actual underutilized deferrals, which were made in prior years, up to a maximum of \$35,000 for calendar years 2014 and 2013.

Participants may withdraw the current value of funds contributed thirty days after termination of employment with the State of Illinois. Loans of up to 50% of a participant's balance or \$50,000, whichever is less, are available in a new program begun 1/1/13. These loans are repaid to the participant's account. Withdrawals can also be made due to financial hardship if approved by a committee established by the Plan. Upon retirement, participants may select various payment options, including lump sum or periodic payments. The participants may also elect to delay the distribution of their accounts to a specific future date, but are required by the IRS to begin taking minimum distributions the year in which they turn 70 1/2. Death beneficiaries may select similar payment options as retired employees. All investments are assets of the Plan until such time as payments are made to participants.

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

Required Supplementary Information

June 30, 2014

**Defined Benefit Other Postemployment Benefit Plans
Schedule of Funding Progress**
(amounts expressed in thousands)
(unaudited)

The following schedule of funding progress for the State of Illinois' other postemployment retirement benefits (health, dental, vision, and life insurance) is provided for the three most recent actuarial valuations.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)-- Projected Unit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
6/30/2009	\$ -	\$ 27,124,061	\$ 27,124,061	0.00%	\$ 7,091,656	382.48%
6/30/2011	\$ -	\$ 33,295,354	\$ 33,295,354	0.00%	\$ 7,375,559	451.43%
6/30/2013	\$ -	\$ 34,488,085	\$ 34,488,085	0.00%	\$ 7,631,281	451.93%

State of Illinois

Department of Central Management Services

Combining Balance Sheet -
Nonmajor Governmental Funds

June 30, 2014 (Expressed in Thousands)

	Special Revenue			Capital Projects		Total
	Illinois Prescription Drug Discount Program 0316	Minority and Female Business Enterprise 0352	State Surplus Property Revolving 0903	Capital Development 0141		
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES						
Cash equity with State Treasurer	\$ 257	\$ -	\$ 1,783	\$ -	\$ -	2,040
Receivables, net:						
Other	-	-	47	-	-	47
Due from other Department funds	-	-	2	-	-	2
Due from other State funds	-	-	27	-	-	27
Total assets and deferred outflows of resources	<u>257</u>	<u>-</u>	<u>1,859</u>	<u>-</u>	<u>-</u>	<u>2,116</u>
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES						
Accounts payable and accrued liabilities	-	-	234	-	-	234
Intergovernmental payables	-	-	6	-	-	6
Due to other Department funds	-	-	482	-	-	482
Due to other State funds	-	-	31	-	-	31
Due to State of Illinois component units	-	-	1	-	-	1
Total liabilities and deferred inflows of resources	<u>-</u>	<u>-</u>	<u>754</u>	<u>-</u>	<u>-</u>	<u>754</u>
FUND BALANCES						
Committed - General Government	257	-	1,105	-	-	1,362
Total fund balances	<u>257</u>	<u>-</u>	<u>1,105</u>	<u>-</u>	<u>-</u>	<u>1,362</u>
Total liabilities and deferred inflows of resources and fund balances	<u>\$ 257</u>	<u>\$ -</u>	<u>\$ 1,859</u>	<u>\$ -</u>	<u>\$ -</u>	<u>2,116</u>

State of Illinois

Department of Central Management Services

**Combining Statement of Revenues,
Expenditures and Changes in Fund Balance -
Nonmajor Governmental Funds**

For the Year Ended June 30, 2014 (Expressed in Thousands)

	Special Revenue			Capital Projects		
	Illinois Prescription Drug Discount Program 0316	Minority and Female Business Enterprise 0352	State Surplus Property Revolving 0903	Capital Development 0141		Total
REVENUES						
Other revenues	\$ -	\$ -	\$ 3,891	\$ -	\$ -	3,891
Other charges for services	-	-	289	-	-	289
Total revenues	-	-	4,180	-	-	4,180
EXPENDITURES						
General government	-	-	3,838	-	-	3,838
Capital outlay	-	-	33	5,510	-	5,543
Total expenditures	-	-	3,871	5,510	-	9,381
Excess (deficiency) of revenues over (under) expenditures	-	-	309	(5,510)	-	(5,201)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES						
Appropriations from State resources	-	-	-	12,492	-	12,492
Reappropriation to future year(s)	-	-	-	(6,982)	-	(6,982)
Transfers-out	-	(6)	(205)	-	-	(211)
Net other sources (uses) of financial resources	-	(6)	(205)	5,510	-	5,299
Net change in fund balances	-	(6)	104	-	-	98
Fund balances, July 1, 2013	257	6	1,001	-	-	1,264
Fund Balances, June 30, 2014	\$ 257	\$ -	\$ 1,105	\$ -	\$ -	1,362

State of Illinois
Department of Central Management Services

Combining Statement of Net Position
Internal Service Funds

June 30, 2014 (Expressed in Thousands)

	State Garage Revolving 0303	Statistical Services Revolving 0304	Communications Revolving 0312	Facilities Management Revolving 0314	Professional Services 0317	Workers' Compensation Revolving 0332	Health Insurance Reserve 0907	Group Life Insurance Premium 1457	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES									
Cash equity with State Treasurer	\$ 10,099	\$ 20,860	\$ 6,363	\$ 12,557	\$ 9,228	\$ 18,930	\$ 71,686	\$ -	\$ 149,723
Cash and cash equivalents	-	-	-	4,222	-	5,885	68,438	-	78,545
Securities lending collateral equity of State Treasurer	-	-	-	5,878	4,439	9,918	45,872	-	66,107
Receivables, net:									
Intergovernmental	8	-	1,230	-	-	-	1,333	-	2,571
Other	23	9	2,745	7	3	7	21,956	9,426	34,176
Due from other Department fiduciary funds	-	113	2	6	-	-	7	8	136
Due from other Department funds	34	1,961	26,748	22,932	-	-	1,558,532	4,995	1,615,202
Due from other State funds	14,502	54,321	46,134	33,718	9,017	602,231	1,458	43	761,424
Due from State of Illinois component units	16	18	824	64	-	-	9,420	276	10,618
Inventories	1,959	-	-	-	-	-	-	-	1,959
Investments	-	-	-	-	-	-	-	517	517
Total current assets and deferred outflows of resources	26,641	77,282	84,046	79,384	22,687	636,971	1,778,702	15,265	2,720,978
Capital assets not being depreciated	-	-	351	38,369	-	-	-	-	38,720
Capital assets being depreciated, net	11,254	11,384	74,835	171,142	-	-	8	-	268,623
Total noncurrent assets and deferred outflows of resources	11,254	11,384	75,186	209,511	-	-	8	-	307,343
Total assets and deferred outflows of resources	37,895	88,666	159,232	288,895	22,687	636,971	1,778,710	15,265	3,028,321
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES									
Accounts payable and accrued liabilities	8,858	5,202	13,357	16,736	592	1,272	1,731,300	6,071	1,783,388
Intergovernmental payables	32	3,567	3,784	1,441	12	2	241	1	9,080
Due to other State fiduciary funds	178	701	250	492	65	-	56	-	1,742
Due to other Department funds	1,107	26,956	634	452	137	8	779	9,128	39,201
Due to other State funds	33	60	44	266	8	11	97	65	584
Due to State of Illinois component units	37	8	11	91	4	-	-	-	151
Obligations under securities lending of State Treasurer	-	-	-	5,878	4,439	9,918	45,872	-	66,107
Unearned revenue	-	-	5,430	211	-	-	-	-	5,641
Current portion of long-term obligations	169	599	90	3,765	56	113,879	14	-	118,572
Total current liabilities and deferred inflows of resources	10,414	37,093	23,600	29,332	5,313	125,090	1,778,359	15,265	2,024,466
Noncurrent portion of long-term obligations	1,090	3,825	1,440	14,822	254	511,881	351	-	533,663
Total liabilities and deferred inflows of resources	11,504	40,918	25,040	44,154	5,567	636,971	1,778,710	15,265	2,558,129
NET POSITION									
Net investment in capital assets	11,254	11,589	75,186	193,996	-	-	-	-	292,025
Restricted for debt services	-	-	-	4,222	-	-	8	-	4,230
Unrestricted	15,137	36,159	59,006	46,523	17,120	-	(8)	-	173,937
Total net position	\$ 26,391	\$ 47,748	\$ 134,192	\$ 244,741	\$ 17,120	\$ -	\$ -	\$ -	\$ 470,192

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, 2014 (Expressed in Thousands)

	State Garage Revolving 0303	Statistical Services Revolving 0304	Communications Revolving 0312	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	\$ 58,929	\$ 151,469	\$ 116,833	\$ 185,659	\$ 9,929	\$ 198,921	\$ 2,350,327	\$ 22,774	\$ 3,094,841
Other	68	-	4,101	-	-	-	-	-	4,169
Total operating revenues	58,997	151,469	120,934	185,659	9,929	198,921	2,350,327	22,774	3,099,010
OPERATING EXPENSES									
Cost of sales and services	43,292	142,784	89,387	169,012	9,738	-	-	23,306	477,519
Claims and judgments	-	-	-	-	-	199,027	2,104,535	-	2,303,562
General and administrative	9,727	1,798	7,485	9,449	-	-	60,456	65	88,980
Depreciation	3,194	4,185	5,167	13,241	-	-	4	-	25,791
Other	59	-	14,278	-	-	-	-	-	14,337
Total operating expenses	56,272	148,767	116,317	191,702	9,738	199,027	2,164,995	23,371	2,910,189
Operating income (loss)	2,725	2,702	4,617	(6,043)	191	(106)	185,332	(597)	188,821
NONOPERATING REVENUES (EXPENSES)									
Interest and investment income	-	-	-	36	42	106	629	80	893
Interest expense	(23)	(359)	-	(931)	-	-	(211,794)	-	(213,107)
Other revenue	-	-	-	-	-	-	25,824	517	26,341
Other expenses	(231)	(42)	(10)	-	-	-	-	-	(283)
Income (loss) before contributions	2,471	2,301	4,607	(6,938)	233	-	(9)	-	2,665
Contributions of capital assets	-	1,798	3,698	2,802	-	-	9	-	8,307
Change in net position	2,471	4,099	8,305	(4,136)	233	-	-	-	10,972
Net position, July 1, 2013	23,920	43,649	125,887	248,877	16,887	-	-	-	459,220
Net position, June 30, 2014	\$ 26,391	\$ 47,748	\$ 134,192	\$ 244,741	\$ 17,120	\$ -	\$ -	\$ -	\$ 470,192

State of Illinois
Department of Central Management Services

Combining Statement of Cash Flows

Internal Service Funds

For the Year Ended June 30, 2014 (Expressed in Thousands)

	State Garage Revolving 0303	Statistical Services Revolving 0304	Communications Revolving 0312	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	\$ 592	\$ -	\$ 21,849	\$ 790	\$ -	\$ -	\$ 139,331	\$ -	\$ 162,562
Cash received from transactions with other funds	62,873	169,681	86,591	199,676	10,747	106,772	2,513,110	29,999	3,179,449
Cash payments to suppliers for goods and services	(40,697)	(100,508)	(90,298)	(154,530)	(9,948)	(10,582)	(2,499,517)	(30,079)	(2,936,159)
Cash payments to employees for services	(15,097)	(53,297)	(21,935)	(40,105)	-	-	(5,465)	-	(135,899)
Cash payments for workers compensation	-	-	-	-	-	(145,709)	-	-	(145,709)
Cash receipts from other operating activities	68	-	21,428	-	-	-	49,471	-	70,967
Net cash provided (used) by operating activities	7,739	15,876	17,635	5,831	799	(49,519)	196,930	(80)	195,211
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES									
Grants received	-	-	-	-	-	-	32,764	-	32,764
Other noncapital financing activities	(13)	(359)	-	-	-	-	(269,831)	-	(270,203)
Net cash provided (used) by noncapital financing activities	(13)	(359)	-	-	-	-	(237,067)	-	(237,439)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES									
Acquisition and construction of capital assets	(6,875)	(1,847)	(16,504)	(58)	-	-	-	-	(25,284)
Principal paid on capital debt	-	-	-	(3,350)	-	-	-	-	(3,350)
Interest paid on capital debt	-	-	-	(1,031)	-	-	-	-	(1,031)
Net cash (used) by capital and related financing activities	(6,875)	(1,847)	(16,504)	(4,439)	-	-	-	-	(29,665)
CASH FLOWS FROM INVESTING ACTIVITIES									
Interest and dividends on investments	-	-	-	35	42	114	670	80	941
Net cash provided by investing activities	-	-	-	35	42	114	670	80	941
Net increase (decrease) in cash and cash equivalents	851	13,670	1,131	1,427	841	(49,405)	(39,467)	-	(70,952)
Cash and cash equivalents, July 1, 2013	9,248	7,190	5,232	15,352	8,387	74,220	179,591	-	299,220
CASH AND CASH EQUIVALENTS, JUNE 30, 2014	\$ 10,099	\$ 20,860	\$ 6,363	\$ 16,779	\$ 9,228	\$ 24,815	\$ 140,124	\$ -	\$ 228,268
Reconciliation of cash and cash equivalents to the statement of net position:									
Total cash and cash equivalents per the statement of net assets	-	-	-	4,222	-	5,885	68,438	-	78,545
Add: cash equity with State Treasurer	10,099	20,860	6,363	12,557	9,228	18,930	71,686	-	149,723
CASH AND CASH EQUIVALENTS, JUNE 30, 2014	\$ 10,099	\$ 20,860	\$ 6,363	\$ 16,779	\$ 9,228	\$ 24,815	\$ 140,124	\$ -	\$ 228,268

State of Illinois
 Department of Central Management Services

Combining Statement of Cash Flows

Internal Service Funds

For the Year Ended June 30, 2014 (Expressed in Thousands)

	State Garage Revolving 0303	Statistical Services Revolving 0304	Communications Revolving 0312	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)	\$ 2,725	\$ 2,702	\$ 4,617	\$ (6,043)	\$ 191	\$ (106)	\$ 185,332	\$ (597)	\$ 188,821
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:									
Depreciation	3,194	4,185	5,167	13,241	-	-	4	-	25,791
Provision for uncollectible accounts	-	-	(206)	-	-	-	-	-	(206)
Changes in assets and liabilities:									
(Increase) decrease in accounts receivable	(11)	(4)	337	-	-	-	2,051	(7,227)	(4,854)
(Increase) decrease in intergovernmental receivables	28	-	17,360	-	816	-	701	-	18,905
(Increase) decrease in due from other funds	4,520	15,445	(9,585)	16,259	-	(92,149)	217,262	994	152,746
(Increase) decrease in due from component units	(5)	1,294	250	(29)	-	-	16,956	512	18,978
(Increase) decrease in inventories	(60)	-	-	-	-	-	-	-	(60)
Increase (decrease) in accounts payable and accrued liabilities	(1,829)	(10,877)	(4,831)	(15,826)	(70)	(3,648)	(225,682)	765	(261,998)
Increase (decrease) in intergovernmental payables	(17)	1,875	955	(77)	-	(4)	226	1	2,959
Increase (decrease) in due to other funds	(764)	1,499	(103)	(341)	(116)	(43)	124	5,472	5,728
Increase (decrease) in due to component units	29	8	(1,749)	(54)	4	-	-	-	(1,762)
Increase (decrease) in deferred revenues	-	-	5,430	(1,423)	-	-	-	-	4,007
Increase (decrease) in other liabilities	(71)	(251)	(7)	124	(26)	46,431	(44)	-	46,156
Total adjustments	5,014	13,174	13,018	11,874	608	(49,413)	11,598	517	6,390
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 7,739	\$ 15,876	\$ 17,635	\$ 5,831	\$ 799	\$ (49,519)	\$ 196,930	\$ (80)	\$ 195,211
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES									
Gain (loss) on sale of property and equipment	\$ (94)	\$ 32	\$ (10)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (72)
Transfer of capital assets, net of related debt, to/from other State funds		\$ 1,798	\$ 3,698	\$ 2,802	\$ -	\$ -	\$ 9	\$ -	\$ 8,307

State of Illinois
Department of Central Management Services
Combining Statement of Fiduciary Net Position
Pension (and Other Employee Benefit) Trust Funds
June 30, 2014 (Expressed in Thousands)

	Teacher Health Insurance Security 0203	Community College Health Insurance Security 0577	State Employees' Deferred Compensation Plan 0755	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
Cash equity with State Treasurer	\$ 46,813	\$ 2,234	\$ 3,158	\$ 52,205
Cash and cash equivalents	11,756	1,145	2,522	15,423
Investments:				
Equities	-	-	2,943,922	2,943,922
Fixed income	-	-	293,263	293,263
Other	-	-	874,090	874,090
Intergovernmental receivables	374	1	-	375
Other receivables, net	18,955	1,337	896	21,188
Loans and note receivable, net	-	-	31,413	31,413
Securities lending collateral equity of State Treasurer	17,155	1,028	1,470	19,653
Total assets and deferred outflows of resources	95,053	5,745	4,150,734	4,251,532
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES				
Accounts payable and accrued liabilities	165,193	23,303	1,108	189,604
Intergovernmental payables	58	6	2	66
Due to other Department funds	99	16	21	136
Due to other State fiduciary funds	11	1	10	22
Due to other State funds	11	1	43	55
Obligations under securities lending of State Treasurer	17,155	1,028	1,470	19,653
Current portion of long-term obligations	5	-	-	5
Noncurrent portion of long-term obligations	76	3	162	241
Total liabilities and deferred inflows of resources	182,608	24,358	2,816	209,782
NET POSITION				
Held in trust for:				
Other employee benefits	(87,555)	(18,613)	-	(106,168)
Deferred compensation benefits	-	-	4,147,918	4,147,918
Total net position	\$ (87,555)	\$ (18,613)	\$ 4,147,918	\$ 4,041,750

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, 2014 (Expressed in Thousands)

	Teacher Health Insurance Security 0203	Community College Health Insurance Security 0577	State Employees' Deferred Compensation Plan 0755	Total
Deposits/Contributions:				
Employer	\$ 77,290	\$ 4,396	\$ -	\$ 81,686
State	90,430	4,399	-	94,829
Members/participants	261,634	18,355	163,376	443,365
Other contributions	16,493	1,611	5,005	23,109
Total contributions	<u>445,847</u>	<u>28,761</u>	<u>168,381</u>	<u>642,989</u>
Investment income:				
Interest, dividends and other investment income	152	15	147,745	147,912
Net appreciation of investments	-	-	414,251	414,251
Reimbursement of investment expenses not separable from investment income	-	-	3,077	3,077
Less: investment expense	-	-	(2,072)	(2,072)
Net investment income	<u>152</u>	<u>15</u>	<u>563,001</u>	<u>563,168</u>
Total additions	<u>445,999</u>	<u>28,776</u>	<u>731,382</u>	<u>1,206,157</u>
Deductions:				
Benefit payments	434,088	30,932	234,192	699,212
Refunds	-	-	37	37
Other Deductions	-	-	827	827
General and administration	19,327	3,219	3,075	25,621
Total deductions	<u>453,415</u>	<u>34,151</u>	<u>238,131</u>	<u>725,697</u>
Net additions (deductions)	<u>(7,416)</u>	<u>(5,375)</u>	<u>493,251</u>	<u>480,460</u>
Net position, July 1, 2013	<u>(80,139)</u>	<u>(13,238)</u>	<u>3,654,667</u>	<u>3,561,290</u>
Net position, June 30, 2014	<u>\$ (87,555)</u>	<u>\$ (18,613)</u>	<u>\$ 4,147,918</u>	<u>\$ 4,041,750</u>

State of Illinois

Department of Central Management Services

Combining Statement of Fiduciary Net Position

Agency Funds

June 30, 2014 (Expressed in Thousands)

	Flexible Spending Account 0202	Group Insurance Premium 0457	Total
ASSETS			
Cash equity with State Treasurer	\$ 4,809	\$ 6,821	\$ 11,630
Cash and cash equivalents	600	-	600
Other receivables, net	-	1,837	1,837
Securities lending collateral equity of State Treasurer	-	4,261	4,261
Total assets	\$ 5,409	\$ 12,919	\$ 18,328
LIABILITIES			
Accounts payable and accrued liabilities	\$ 5,373	\$ 8,658	\$ 14,031
Intergovernmental payables	36	-	36
Obligations under securities lending of State Treasurer	-	4,261	4,261
Total liabilities	\$ 5,409	\$ 12,919	\$ 18,328

State of Illinois
Department of Central Management Services
Combining Statement of Changes in Assets and Liabilities
Agency Funds

For the Year Ended June 30, 2014 (Expressed in Thousands)

	Balance at July 1, 2013	Additions	Deletions	Balance at June 30, 2014
Flexible Spending Account Fund (0202):				
ASSETS				
Cash equity with State Treasurer	\$ 1,282	\$ 28,873	\$ 25,346	\$ 4,809
Cash and cash equivalents	3,786	21,787	24,973	600
Total assets	\$ 5,068	\$ 50,660	\$ 50,319	\$ 5,409
LIABILITIES				
Accounts payable and accrued liabilities	\$ 5,048	\$ 28,499	\$ 28,174	\$ 5,373
Intergovernmental payables	20	374	358	36
Total liabilities	\$ 5,068	\$ 28,873	\$ 28,532	\$ 5,409
Group Insurance Premium Fund (0457):				
ASSETS				
Cash equity with State Treasurer	\$ 7,802	\$ 56,186	\$ 57,167	\$ 6,821
Other receivables, net	995	842	-	1,837
Securities lending collateral equity of State Treasurer	3,639	50,217	49,595	4,261
Total assets	\$ 12,436	\$ 107,245	\$ 106,762	\$ 12,919
LIABILITIES				
Accounts payable and accrued liabilities	\$ 8,797	\$ 57,028	\$ 57,167	\$ 8,658
Obligations under securities lending of State Treasurer	3,639	50,217	49,595	4,261
Total liabilities	\$ 12,436	\$ 107,245	\$ 106,762	\$ 12,919
Total				
ASSETS				
Cash equity with State Treasurer	\$ 9,084	\$ 85,059	\$ 82,513	\$ 11,630
Cash and cash equivalents	3,786	21,787	24,973	600
Other receivables, net	995	842	-	1,837
Securities lending collateral equity of State Treasurer	3,639	50,217	49,595	4,261
Total assets	\$ 17,504	\$ 157,905	\$ 157,081	\$ 18,328
LIABILITIES				
Accounts payable and accrued liabilities	\$ 13,845	\$ 85,527	\$ 85,341	\$ 14,031
Intergovernmental payables	20	374	358	36
Obligations under securities lending of State Treasurer	3,639	50,217	49,595	4,261
Total liabilities	\$ 17,504	\$ 136,118	\$ 135,294	\$ 18,328

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

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of Illinois, Department of Central Management Services, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the State of Illinois, Department of Central Management Services' basic financial statements, and have issued our report thereon dated January 13, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the State of Illinois, Department of Central Management Services' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State of Illinois, Department of Central Management Services' internal control. Accordingly, we do not express an opinion on the effectiveness of the State of Illinois, Department of Central Management Services' internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies 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.

However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings as item 2014-001 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Illinois, Department of Central Management Services' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Department of Central Management Services' Response to Findings

The Department of Central Management Services' responses to the findings identified in our audit are described in the accompanying schedule of findings. The Department of Central Management Services' responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

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

A handwritten signature in black ink that reads "Silich LLP". The signature is written in a cursive, flowing style.

Springfield, Illinois
January 13, 2015

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

**CURRENT FINDINGS –
GOVERNMENT AUDITING STANDARDS**

FOR THE YEAR ENDED JUNE 30, 2014

2014-001 FINDING: (Inadequate security and control over the midrange environment)

Although the consolidation was authorized in January 2005, the Department of Central Management Services (the Department) had not implemented adequate security and controls over the midrange environment.

20 ILCS 405/405-410, effective January 15, 2005, mandated the Department to consolidate Information Technology functions of State government. Since January 2005, twelve agencies have consolidated their IT infrastructure into the Department. As a result of the consolidation, the Department became responsible for the security and control of the midrange environment.

Although the Department had implemented standards to secure and control the midrange environment, the standards did not require widespread deployment to legacy systems. As such, the Department still had not implemented effective security controls over all servers in the midrange environment.

Upon review, we noted standards had not been consistently applied on all servers. Specifically, we noted servers:

- Running unsupported operating systems or service pack versions,
- Without anti-virus software,
- Not properly backed up,
- With deficient password length and content requirements, and
- With administrative and user accounts which did not require passwords.

Although the Department shares responsibility with consolidated agencies, the Department has the ultimate responsibility to effectively secure and control its midrange environment which supports agency applications and data. As outlined in 20 ILCS 405/405-10 (4) - It shall be the duty of the Director and the policy of the State of Illinois to manage or delegate the management of the procurement, retention, installation, maintenance, and operation of all electronic data processing equipment used by State agencies in a manner that provides for adequate security protection. Since the Department has primary control over the midrange environment, it was incumbent upon them to ensure adequate controls existed to protect agency applications and data. In addition, generally accepted information technology guidance endorses the development of well-designed and well-managed controls to protect computer systems and data. Effective computer security controls provide for safeguarding, securing, and controlling access to hardware, software, and the information stored in the computer system.

The Department stated that these weaknesses exist as a result of legacy environments that were inherited during the consolidation process. Business requirements and configurations of various agency environments prevented adherence to CMS policies and standards. Due to required business transactions with external partners, CMS password standards could not be enforced. Additionally, legacy applications that required end-of-life operating systems could not be upgraded to current vendor supported versions, and due to these end-of-life operating systems, antivirus was no longer supported for these systems, and current updates were unavailable. Many of the agencies maintained poor documentation of the server environments, and backup exceptions were not documented. Additionally, administrative rights were in place on these legacy servers in order to provide necessary support. These permissions were provided not only to infrastructure personnel, but to application support people as well that remained with the agency after the consolidation.

Without the implementation of adequate controls and procedures, there is a greater risk unauthorized access to the Department or agency resources may be gained and data destroyed or misused. Prudent business practices dictate the Department strengthen its security to protect its assets and resources against unauthorized access and misuse. (Finding Code No. 2014-001, 2013-002, 12-2, 11-2, 10-2, 09-4, 08-7, 07-11)

RECOMMENDATION:

The Department should ensure the standards to secure and control the environment are implemented across the midrange environment.

Specifically the Department should:

- Ensure all administrative accounts meet password and security standards.
- Standardize password length and content requirements and ensure all user accounts require a password.
- Update servers to current vendor recommended patch or service pack levels.
- Ensure all servers are running antivirus software.
- Ensure all servers are routinely backed up.

DEPARTMENT RESPONSE:

Due to the reasons stated in the cause, many of the issues still remain. CMS has corrected what is in its power to correct. Password standards have been developed, and exceptions documented. Operating systems that could be upgraded have been. Current anti-virus has been installed where possible, and the latest possible version of anti-virus has been installed on older operating systems that will not allow current versions to be installed. Backup processes have been implemented to verify all servers are backed up on a regular basis, and any exceptions have been documented. Some administrative rights have been reviewed, and adjusted, but due to the variety and age of the operating systems in place, no single tool is available to report against all systems. This makes it difficult and resource intensive to report across all servers.

It is CMS' goal to move all agencies to the new Illinois.gov domain. This would provide a current, vendor supported environment for all agencies, and ensure compliance. However, due to the fact that existing legacy applications are based on the older legacy

security systems, migration to the Illinois.gov environment has been slow. It should be noted that it costs agencies time and resources to migrate the legacy applications to the new environment, and they have not made this a priority. Additionally, CMS has not been provided the authority to force agencies to migrate to the new environment since it would have a negative impact on their allocated budgets.

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

PRIOR FINDINGS NOT REPEATED

FINDING: (Weaknesses in internal control over financial reporting)

In the prior audit, we noted the Department conducted an inadequate review of the independent actuarial valuation report for unpaid claims liabilities to evaluate the overall reasonableness of the Department's calculation of unpaid claims liabilities at June 30, 2013. The Department also made mathematical errors in the calculation of the total estimated liability for pension-type awards resulting in an understatement of the liability for workers' compensation claims of \$13.5 million. Other errors in the preparation of the Department's financial statements were found, including a miscalculation in estimated receivables and overstatement of revenues which were not material to the Department's financial statements taken as a whole. The lack of adequate review and evaluation conducted by the Department led to delays in obtaining a timely resolution as to whether the Department's financial statements were reasonably stated as of June 30, 2013.

For the current audit, the Department determined that its calculation of unpaid claims liabilities and workers' compensation claims at June 30, 2014 fell within a range of reasonable estimates provided by an independent actuary. (Finding Code No. 2013-001)