

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

FINANCIAL AUDIT

For the Year Ended June 30, 2010

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, 2010

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

FINANCIAL AUDIT

For the Year Ended June 30, 2010

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

AGENCY OFFICIALS

Director	Mr. James Sledge
Assistant Director	Ms. Christine Cegelis
	Mr. Steve McCurdy
Chief Operating Officer	Mr. Doug Kucia (April 1, 2010 through April 24, 2010)
	Ms. Elizabeth Nicholson (August 25, 2008 through September 21, 2009)
Chief Fiscal Officer	Mr. Paul Romiti
General Counsel	Ms. Nadine Lacombe (February 10, 2010 through current)
	Ms. Debra Matlock (July 1, 2009 through December 31, 2009)
Chief Internal Auditor (Illinois Office of Internal Audit)	Ms. Debbie Abbott (November 1, 2009 through June 30, 2010)
	Ms. Carol Kraus (July 1, 2009 through October 13, 2009)

AGENCY OFFICE LOCATION

Stratton Office Building
401 South Spring Street
Springfield, IL 62706

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

FINANCIAL STATEMENT REPORT SUMMARY

SUMMARY

The audit of the accompanying financial statements of the State of Illinois, Department of Central Management Services as of June 30, 2010 and for the year then ended, was performed by Sikich LLP as Special Assistant Auditors to the Auditor General, State of Illinois.

Based on their audit, the auditors expressed an unqualified 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 material weaknesses and significant deficiencies. The material weaknesses are described in the accompanying Schedule of Findings listed in the table of contents as finding 10-1, Weaknesses in internal control over financial reporting. The significant deficiencies are described in the accompanying Schedule of Findings listed in the table of contents as finding 10-2, Inadequate security and control over the midrange environment and finding 10-3, Incomplete and inaccurate records over computer systems and equipment.

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with Department personnel at an exit conference on January 6, 2011. Attending were:

DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

Paul Romiti, Chief Fiscal Officer
Tasha Cruzat, Chief Operating Officer
Spenser Staton, Chief Internal Auditor
Tammy Compton, Fiscal
Kevin Rademacher, Chief Technology Officer
Ted Hasara, BOSSAP
Rafael Diaz, BCCS
David Boyd, Audit Liaison
Amy Walter, Internal Auditor
Denise Reed, Administrative Assistant

OFFICE OF THE AUDITOR GENERAL

Terri Davis, Audit Manager
Kathy Lovejoy, Audit Manager

SIKICH LLP

Gary Neubauer, Partner
Megan Cochran, Supervisor

The responses to the recommendations were provided by Paul Romiti on January 13, 2011.



3201 West White Oaks Drive, Suite 102 • Springfield, IL 62704

INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the governmental 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, 2010, which collectively comprise the Department of Central Management Services' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Illinois, Department of Central Management Services' management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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 and changes in financial position and cash flows, where applicable, of only that portion of the governmental 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, 2010, and its changes in financial position including cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Illinois, Department of Central Management Services, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 4, 2011 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* and should be considered in assessing the results of our audit.

The State of Illinois, Department of Central Management Services has not presented a management's discussion and analysis and budgetary comparison information for the General Revenue Fund and the Road Fund that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

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 have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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.

Sikich LLP

Springfield, Illinois
March 4, 2011

State of Illinois
Department of Central Management Services

Statement of Net Assets

June 30, 2010 (Expressed in Thousands)

	Governmental Activities
ASSETS	
Unexpended appropriations	\$ 6,753
Cash equity with State Treasurer	42,181
Cash and cash equivalents	3,766
Securities lending collateral equity of State Treasurer	5,509
Receivables, net:	
Intergovernmental	1,243
Other	12,688
Due from other State funds	223,509
Due from State of Illinois component units	1,626
Inventories	2,576
Capital assets not being depreciated	38,411
Capital assets being depreciated, net	226,994
Total assets	565,256
LIABILITIES	
Accounts payable and accrued liabilities	114,559
Intergovernmental payables	12,213
Due to other State fiduciary funds	2,070
Due to other State funds	712
Due to State of Illinois component units	542
Obligations under securities lending of State Treasurer	5,509
Unearned revenue	1,430
Long term obligations:	
Due within one year	152,711
Due subsequent to one year	438,185
Total liabilities	727,931
NET ASSETS	
Invested in capital assets, net of related debt	227,783
Restricted for debt services	3,766
Unrestricted (deficit)	(394,224)
Total net assets	\$ (162,675)

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, 2010 (Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues Charges for Services	Net (Expense) Revenues and Changes in Net Assets Governmental Activities
Primary government			
Governmental activities			
General government	\$ 834,323	\$ 746,099	\$ (88,224)
Education	27,621	-	(27,621)
Employment and economic development	5,011	-	(5,011)
Health and social services	29,241	-	(29,241)
Transportation	60,394	-	(60,394)
Public protection and justice	23,710	-	(23,710)
Environment and business regulation	5,774	-	(5,774)
Total governmental activities	986,074	746,099	(239,975)
General revenues			
Appropriations from State Resources			98,134
Reappropriation to future year(s)			(6,795)
Lapsed appropriations			(2,049)
Receipts collected and transmitted to State Treasury			(103)
Interest and investment income			280
Other revenues			1,764
Capital transfers to other State agencies			(1,139)
Capital contributions			6,710
Transfers-out			(3,500)
Total general revenues and transfers			93,302
Change in net assets			(146,673)
Net assets, July 1, 2009			(16,002)
Net assets, June 30, 2010			\$ (162,675)

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, 2010 (Expressed in Thousands)

	<u>General Fund</u>	<u>Road Fund</u>	<u>Nonmajor funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Unexpended appropriations	\$ 6,675	\$ -	\$ 78	\$ 6,753
Cash equity with State Treasurer	-	-	151	151
Receivables, net:				
Intergovernmental receivables	-	-	9	9
Other receivables	586	-	71	657
Due from other Department funds	9,372	-	441	9,813
Due from other State funds	-	-	116	116
Inventories	-	-	897	897
Total assets	<u>\$ 16,633</u>	<u>\$ -</u>	<u>\$ 1,763</u>	<u>\$ 18,396</u>
LIABILITIES				
Accounts payable and accrued liabilities	\$ 942	\$ -	\$ 316	\$ 1,258
Intergovernmental payables	9	-	-	9
Due to other Department fiduciary funds	400	-	-	400
Due to other State fiduciary funds	1	-	-	1
Due to other Department funds	415,496	100,813	230	516,539
Due to other State funds	-	-	3	3
Due to State of Illinois component units	59	-	-	59
Unavailable revenue	618	-	-	618
Matured portion of long-term obligations	65	-	-	65
Total liabilities	<u>417,590</u>	<u>100,813</u>	<u>549</u>	<u>518,952</u>
FUND BALANCES (DEFICITS)				
Reserved for:				
Inventories	-	-	897	897
Encumbrances	290	-	-	290
Unreserved, undesignated:				
General fund	(401,247)	-	-	(401,247)
Special revenue funds	-	(100,813)	317	(100,496)
Total fund balances (deficits)	<u>(400,957)</u>	<u>(100,813)</u>	<u>1,214</u>	<u>(500,556)</u>
Total liabilities and fund balances (deficits)	<u>\$ 16,633</u>	<u>\$ -</u>	<u>\$ 1,763</u>	<u>\$ 18,396</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 Assets
June 30, 2010
(Expressed in Thousands)

Total fund balances-governmental funds		\$ (500,556)
<p>Amounts reported for governmental activities in the Statement of Net Assets are different because:</p>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		98
Revenues in the Statement of Activities that do not provide current financial resources are deferred in the funds.		618
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 Assets.		340,556
Some liabilities reported in the Statement of Net Assets 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	(1,397)	
Auto liability claims	(1,994)	
	(3,391)	(3,391)
Net assets of governmental activities		\$ (162,675)

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, 2010 (Expressed in Thousands)

	<u>General Fund</u>	<u>Road Fund</u>	<u>Nonmajor funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Other	\$ 30	\$ -	\$ 1,704	\$ 1,734
Other charges for services	-	-	828	828
Total revenues	<u>30</u>	<u>-</u>	<u>2,532</u>	<u>2,562</u>
EXPENDITURES				
General government	92,366	(10,686)	2,165	83,845
Education	27,621	-	-	27,621
Employment and economic development	5,011	-	-	5,011
Health and social services	29,241	-	-	29,241
Transportation	2,280	58,114	-	60,394
Public protection and justice	35,616	(11,906)	-	23,710
Environment and business regulation	5,774	-	-	5,774
Capital outlays	-	-	1,139	1,139
Total expenditures	<u>197,909</u>	<u>35,522</u>	<u>3,304</u>	<u>236,735</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(197,879)</u>	<u>(35,522)</u>	<u>(772)</u>	<u>(234,173)</u>
OTHER SOURCES (USES) OF FINANCIAL RESOURCES				
Appropriations from State resources	90,040	-	8,094	98,134
Reappropriation to future year(s)	-	-	(6,795)	(6,795)
Lapsed appropriations	(2,049)	-	-	(2,049)
Receipts collected and transmitted to State Treasury	(103)	-	-	(103)
Net other sources (uses) of financial resources	<u>87,888</u>	<u>-</u>	<u>1,299</u>	<u>89,187</u>
Net change in fund balances	<u>(109,991)</u>	<u>(35,522)</u>	<u>527</u>	<u>(144,986)</u>
Fund balances (deficits), July 1, 2009,	(290,966)	(65,291)	(210)	(356,467)
Increase (decrease) for changes in inventories	-	-	897	897
FUND BALANCES (DEFICITS), JUNE 30, 2010	<u>\$ (400,957)</u>	<u>\$ (100,813)</u>	<u>\$ 1,214</u>	<u>\$ (500,556)</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, 2010
(Expressed in Thousands)

Net change in fund balances	\$ (144,986)
Change in inventories	897
	(144,089)
<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>	1,115
<p>Some capital assets were transferred to other State agencies.</p>	(1,139)
<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>	(2,246)
<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>	46
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. Below are such activities.</p>	
Increase in compensated absences obligation	(132)
Increase in auto liability claims	(228)
	(360)
Change in net assets of governmental activities	\$ (146,673)

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 Assets -
Proprietary Funds

June 30, 2010 (Expressed in Thousands)

	Governmental Activities - Internal Service Funds
	<u> </u>
ASSETS	
Cash equity with State Treasurer	\$ 42,030
Cash and cash equivalents	3,766
Securities lending collateral equity of State Treasurer	5,509
Receivables, net:	
Intergovernmental	1,234
Other	12,031
Due from other Department funds	548,362
Due from other State funds	223,393
Due from State of Illinois component units	1,626
Inventories	1,679
Total current assets	<u>839,630</u>
Capital assets not being depreciated	38,369
Capital assets being depreciated, net	226,938
Total noncurrent assets	<u>265,307</u>
Total assets	<u>1,104,937</u>
LIABILITIES	
Accounts payable and accrued liabilities	113,301
Intergovernmental payables	12,204
Due to other State fiduciary funds	2,069
Due to other Department funds	41,236
Due to other State funds	709
Due to State of Illinois component units	483
Obligations under securities lending of State Treasurer	5,509
Deferred revenue	1,430
Current portion of long-term obligations	150,954
Total current liabilities	<u>327,895</u>
Noncurrent portion of long-term obligations	436,486
Total liabilities	<u>764,381</u>
NET ASSETS	
Invested in capital assets, net of related debt	227,685
Restricted for debt service	3,766
Unrestricted	109,105
Total net assets	<u>\$ 340,556</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, Expenses and Changes in
Fund Net Assets - Proprietary Funds**

For the Year Ended June 30, 2010 (Expressed in Thousands)

	Governmental Activities - Internal Service Funds
	<hr/>
OPERATING REVENUES	
Charges for sales and services	\$ 794,143
Other	30
Total operating revenues	<hr/> 794,173 <hr/>
OPERATING EXPENSES	
Cost of sales and services	463,210
Claims and judgments	260,963
General and administrative	27,193
Depreciation	30,874
Other	12,382
Total operating expenses	<hr/> 794,622 <hr/>
Operating income (loss)	(449)
NONOPERATING REVENUES (EXPENSES)	
Interest and investment income	280
Interest expense	(4,900)
Other expenses	(387)
	<hr/>
Income (loss) before contributions and transfers	(5,456)
Contributions of capital assets	6,710
Transfers-out	(3,500)
	<hr/>
Change in net assets	(2,246)
Net assets, July 1, 2009	<hr/> 342,802 <hr/>
NET ASSETS, JUNE 30, 2010	<hr/> \$ 340,556 <hr/> <hr/>

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, 2010 (Expressed in Thousands)

	Governmental Activities - Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from sales and services	\$ 15,659
Cash received from transactions with other funds	610,134
Cash payments to suppliers for goods and services	(346,341)
Cash payments to employees for services	(135,623)
Cash payments for workers compensation	(118,626)
Cash receipts from other operating activities	29
Net cash provided (used) by operating activities	<u>25,232</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers-out to other funds	(3,500)
Other noncapital financing activities	(2,525)
Net cash provided (used) by noncapital financing activities	<u>(6,025)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(3,814)
Principal paid on capital debt	(9,378)
Interest paid on capital debt	(2,080)
Net cash (used) by capital and related financing activities	<u>(15,272)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends on investments	284
Net cash provided (used) by investing activities	<u>284</u>
Net increase (decrease) in cash and cash equivalents	4,219
Cash and cash equivalents, July 1, 2009	<u>41,577</u>
CASH AND CASH EQUIVALENTS, JUNE 30, 2010	<u>\$ 45,796</u>
Reconciliation of cash and cash equivalents to the statement of net assets:	
Total cash and cash equivalents per the statement of net assets	\$ 3,766
Add: cash equity with State Treasurer	42,030
CASH AND CASH EQUIVALENTS, JUNE 30, 2010	<u>\$ 45,796</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
OPERATING INCOME (LOSS)	<u>\$ (449)</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	30,874
Provision for uncollectible accounts	57
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(5,561)
(Increase) decrease in intergovernmental receivables	(216)
(Increase) decrease in due from other funds	(169,085)
(Increase) decrease in due from State of Illinois component units	(72)
(Increase) decrease in inventory	(109)
Increase (decrease) in accounts payable and accrued liabilities	19,564
Increase (decrease) in intergovernmental payables	(5,299)
Increase (decrease) in due to other State funds	16,610
Increase (decrease) in due to State of Illinois component units	(1,001)
Increase (decrease) in deferred revenues	1,050
Increase (decrease) in other liabilities	138,869
Total adjustments	<u>25,681</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 25,232</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES	
Cost of installment purchases	\$ 1,949
Loss on sale of equipment	\$ (387)
Transfer of capital assets, net of related debt, to/from other State funds	\$ 6,710

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 Assets

June 30, 2010 (Expressed in Thousands)

	<u>Pension Trust Fund</u>	
	State Employees' Deferred Compensation Plan 0755	<u>Agency Funds</u>
ASSETS		
Cash equity with State Treasurer	\$ 4,422	\$ 9,539
Cash and cash equivalents	3,367	4,373
Investments:		
Equities	1,734,792	-
Fixed income	282,852	-
Other	721,934	-
Other receivables, net	744	940
Securities lending collateral equity of State Treasurer	1,646	3,295
Total assets	<u>2,749,757</u>	<u>\$ 18,147</u>
LIABILITIES		
Accounts payable and accrued liabilities	973	\$ 14,852
Intergovernmental payables	1	-
Due to other State fiduciary funds	13	-
Due to other State funds	45	-
Obligations under securities lending of State Treasurer	1,646	3,295
Long-term liabilities	111	-
Total liabilities	<u>2,789</u>	<u>\$ 18,147</u>
NET ASSETS		
Held in trust for:		
Deferred compensation benefits	2,746,968	
Total net assets	<u>\$ 2,746,968</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 Changes in Fiduciary Net Assets

For the Year Ended June 30, 2010 (Expressed in Thousands)

	Pension Trust Fund
	State Employees' Deferred Compensation Plan 0755
Deposits/Contributions:	
Members/participants	\$ 161,752
Other contributions	2,590
Total contributions	<u>164,342</u>
Investment income:	
Interest, dividends and other investment income	54,263
Net appreciation of investments	268,773
Reimbursement of investment expenses not separable from investment income	2,116
Less: investment expense	(542)
Net investment income	<u>324,610</u>
Total additions	<u>488,952</u>
Deductions:	
Benefit payments	132,142
Refunds	62
General and administration	3,194
Total deductions	<u>135,398</u>
Net additions (deductions)	353,554
Net assets, July 1, 2009	<u>2,393,414</u>
Net assets, JUNE 30, 2010	<u><u>\$ 2,746,968</u></u>

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

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

Notes to Financial Statements

June 30, 2010

(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, and the Flexible Spending Account.

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 also promotes the economic development of minority and female businesses and rehabilitation facilities for 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 dependency on the primary government.

Based upon the required criteria, the Department has no component units and is not a component unit of any other entity. However, because the Department is not legally separate from the State of Illinois, the financial statements of the Department are included in the financial statements of the State of Illinois. The State of Illinois' Comprehensive Annual Financial Report may be

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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, by 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, 2010, 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 assets 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.

The statement of net assets presents the assets and liabilities of the Department's governmental activities with the difference being reported as net assets. 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 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 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 note 2(d)) of the State:

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General – This is the State’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The services which are administered by the Department and accounted for in the general fund include, among others, health and social services.

Road – This fund accounts for the activities of the Department for payment to the Workers’ Compensation Revolving Fund, an internal service fund, for allocated costs associated with providing workers’ compensation 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 resources obtained from specific revenue sources that are legally restricted to expenditures for specified purposes. 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 resources obtained and used for the acquisition or construction of major capital facilities. 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.

Fiduciary Fund Types:

Pension Trust – The State Employees’ Deferred Compensation plan is reported as a pension (and other employee benefit) trust fund in order to account for resources required to be held in trust for the members in accordance with Illinois Compiled Statutes (40 ILCS 5/24-101) and Section 457 of the Internal Revenue Code.

Agency – These funds account for amounts in which the Department acts as 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.

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(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 donations. Revenue from 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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

(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 fund 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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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.

(e) Eliminations

Eliminations have been made in the government-wide statement of net assets 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 assets. Amounts reported in the governmental funds balance sheet and proprietary statement of net assets as receivable from or payable to fiduciary funds have been included in the government-wide statement of net assets as receivable from and payable to external parties, rather than as internal balances.

(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.

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(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. Significant inventories of governmental funds, which consist primarily of federal surplus vehicles held for resale, are recorded as expenditures when consumed or sold rather than when purchased.

(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 assets.

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 reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties as to use for specific purposes. Designations of fund balances represent tentative State plans that are subject to change.

(l) *Net Assets*

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

Invested in Capital Assets, Net of Related Debt – This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, mortgages, notes, or

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other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – This consists of net assets that are legally restricted 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 assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

(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.

(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, 2001, the annual fee charged to participants was limited to a maximum of \$45.

(o) New Accounting Pronouncements

Effective for the year ending June 30, 2010 the State adopted GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which established guidance for recognition and amortization of intangible assets in the financial statements of governments. There was no significant impact on the Department’s financial statements as a result of adopting this statement.

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(p) Future Adoption of GASB Statements

Effective for the year ending June 30, 2011 the Department will adopt GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which establishes fund balance classifications and clarifies the definitions of fund types. 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. The Department independently manages cash and cash equivalents maintained outside the State Treasury.

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

(b) Investments

The Department's investments consist of amounts held by trustees 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, 2010, the Department had the following fixed income investments outside of the State Treasury:

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	<u>Book Value (Thousands)</u>	<u>Fair Value (Thousands)</u>	<u>Weighted Average Maturity (Years)</u>
<i>Governmental Activities</i>			
Money market mutual funds	\$ 3,766	\$ 3,766	0.003
Total fixed income investments	<u>\$ 3,766</u>	<u>\$ 3,766</u>	
<i>Fiduciary Funds</i>			
Money market mutual funds	\$ 93,668	\$ 94,116	0.136
Debt mutual funds	<u>196,924</u>	<u>196,924</u>	6.540
Total fixed income investments	<u>\$ 290,592</u>	<u>\$ 291,040</u>	

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

Credit Risk: The Department does not have a formal investment policy that limits investment choices. The Governmental Activities money market mutual funds were rated Aaa by Moody's. \$4.821 million of the Fiduciary Funds money market mutual funds were rated Aaa by Moody's, while the remaining \$89.295 million of the money market mutual funds were unrated. The Fiduciary Funds debt mutual funds were unrated.

(c) Reconciliation to Statement of Net Assets and Statement of Fiduciary Net Assets

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

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<i>Governmental Activities</i>	<u>Deposits</u>	<u>Investments</u>
Amounts Per Note	\$ -	\$ 3,766
Cash equivalents	<u>3,766</u>	<u>(3,766)</u>
Amounts per Statement of Net Assets	<u>\$ 3,766</u>	<u>\$ -</u>
<i>Fiduciary Funds</i>	<u>Deposits</u>	<u>Investments</u>
Amounts Per Note	\$ -	\$ 290,592
Cash equivalents	7,740	(7,740)
Equity mutual funds	-	1,408,335
Blended mutual funds	-	219,701
Annuities	-	1,168
Equity trust funds	-	106,756
Guaranteed investment contracts	<u>-</u>	<u>720,766</u>
Amounts per Statement of Fiduciary Net Assets	<u>\$ 7,740</u>	<u>\$ 2,739,578</u>

(d) Securities Lending Transactions

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

During fiscal year 2010, Deutsche Bank Group lent 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 market value of the loaned securities. Loans are marked to market daily. If the market value of collateral falls below 100%, the borrower must provide additional collateral to raise the market value to 100%.

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

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During the fiscal year, 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 Group and marked to market daily at no less than 102%. Because the loans are terminable at will, their duration did not generally match the duration of the investments made with 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.

In accordance with GASB Statement No. 28, paragraph 9, the Office of the State Treasurer has allocated the assets and obligations arising from the securities lending agreements as of June 30, 2010, to the various funds of the State. The total allocated to the Department was \$10.450 million at June 30, 2010.

(4) Interfund Balances and Activity

(a) Balances Due to/from Other Funds

The following balances (amounts expressed in thousands) at June 30, 2010 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 State Funds</u>	
General	\$ 9,372	\$ -	Due from other Department funds for reimbursement of advances on expenditures incurred.
Non-major governmental funds	441	116	Due from other Department funds and other State funds for sales of federal surplus property.
Internal service funds	548,362	223,393	Due from other Department funds, other State funds, other Department fiduciary funds, and other State fiduciary funds for services provided.
	<u>\$ 558,175</u>	<u>\$ 223,509</u>	

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The following balances (amounts expressed in thousands) at June 30, 2010 represent amounts due to other Department and State of Illinois funds.

Fund	Due to				Description/Purpose
	Other Department Funds	Other State Funds	Other Department Fiduciary Funds	Other State Fiduciary Funds	
General	\$ 415,496	\$ -	\$ 400	\$ 1	Due to other Department funds for internal service fund services received including workers compensation claims and other State fiduciary funds for retirement contributions.
Road	100,813	-	-	-	Due to other Department internal service funds for payment of workers' compensation claims.
Non-major governmental funds	230	3	-	-	Due to other Department funds for internal service fund services received and other State funds for services received.
Internal service funds	41,236	709	-	2,069	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	-	45	-	13	Due to other Department funds for internal service fund services received and other State funds for audit and other expenses.
	<u>\$ 557,775</u>	<u>\$ 757</u>	<u>\$ 400</u>	<u>\$ 2,083</u>	

(b) Transfers to Other Funds

Interfund transfers out (amounts expressed in thousands) to other State funds for the year ended June 30, 2010, were as follows:

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<u>Fund</u>	<u>Transfers out to</u>	
	<u>Other State Funds</u>	<u>Description/Purpose</u>
Internal service funds	\$ 3,500	Transfer to other State funds pursuant to statute and due to budget shortfalls.

(5) Capital Assets

Capital asset activity (amounts expressed in thousands) for the year ended June 30, 2010 was as follows:

	<u>Balance July 1, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Net Transfers</u>	<u>Balance June 30, 2010</u>
Governmental activities:					
Capital assets not being depreciated:					
Land and land improvements	\$ 38,407	\$ -	\$ -	\$ -	\$ 38,407
Nondepreciable historical treasures and works of art	4	-	-	-	4
Total capital assets not being depreciated	<u>38,411</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>38,411</u>
Capital assets being depreciated:					
Site improvements	3,889	-	-	-	3,889
Buildings and building improvements	450,087	1,139	-	5,265	456,491
Equipment	205,810	5,763	18,818	7,797	200,552
Depreciable historical treasures and works of art	970	-	-	-	970
Total capital assets being depreciated	<u>660,756</u>	<u>6,902</u>	<u>18,818</u>	<u>13,062</u>	<u>661,902</u>
Less accumulated depreciation:					
Site improvements	2,591	187	-	-	2,778
Buildings and building improvements	241,733	12,936	-	-	254,669
Equipment	169,656	17,775	18,431	7,491	176,491
Depreciable historical treasures and works of art	970	-	-	-	970
Total accumulated depreciation	<u>414,950</u>	<u>30,898</u>	<u>18,431</u>	<u>7,491</u>	<u>434,908</u>
Total capital assets being depreciated, net	<u>245,806</u>	<u>(23,996)</u>	<u>387</u>	<u>5,571</u>	<u>226,994</u>
Governmental activity capital assets, net	<u>\$ 284,217</u>	<u>\$ (23,996)</u>	<u>\$ 387</u>	<u>\$ 5,571</u>	<u>\$ 265,405</u>

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Depreciation expense for governmental activities (amounts expressed in thousands) for the year ended June 30, 2010 was charged to functions as follows:

General government \$ 30,898

(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, 2010 were as follows:

	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010	Amounts Due Within One Year
Governmental activities:					
Compensated absences	\$ 14,279	\$ 8,276	\$ 8,145	\$ 14,410	\$ 704
Capital lease obligations	297	-	64	233	68
Installment purchase obligations	14,254	1,949	6,644	9,559	3,889
Certificates of participation	30,500	-	2,670	27,830	2,820
Workers' compensation claim obligations	397,935	258,817	119,947	536,805	143,565
Auto liability claim obligations	1,869	1,761	1,571	2,059	1,665
Total governmental activities	<u>\$ 459,134</u>	<u>\$ 270,803</u>	<u>\$ 139,041</u>	<u>\$ 590,896</u>	<u>\$ 152,711</u>

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

(b) Capital lease obligations

The Department leases office space with a historical cost and accumulated depreciation of \$1.462 and \$.609 million, respectively, under capital lease arrangements. Although lease terms vary, certain leases are renewable subject to appropriation by the General Assembly. If renewal is reasonably assured, leases requiring appropriation by the General Assembly are considered non-cancelable leases for financial reporting. Future minimum lease payments (amounts expressed in thousands) at June 30, 2010 are as follows:

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Year Ending June 30	Principal	Interest	Total
2011	\$ 68	\$ 11	\$ 79
2012	71	7	78
2013	94	4	98
	<u>\$ 233</u>	<u>\$ 22</u>	<u>\$ 255</u>

(c) *Installment purchase obligations*

The Department has acquired certain vehicles, electronic data processing and data storage equipment, and communication and video equipment through installment purchase arrangements. Future debt service requirements under installment purchase contracts (amounts expressed in thousands) at June 30, 2010, are as follows:

Year Ending June 30	Principal	Interest	Total
2011	\$ 3,889	\$ 225	\$ 4,114
2012	3,940	111	4,051
2013	1,730	18	1,748
	<u>\$ 9,559</u>	<u>\$ 354</u>	<u>\$ 9,913</u>

(d) *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 \$14.975 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, 2010, are as follows:

Year Ending June 30	Principal	Interest	Total
2011	\$ 2,820	\$ 1,577	\$ 4,397
2012	2,985	1,406	4,391
2013	3,160	1,224	4,384
2014	3,350	1,031	4,381
2015	3,545	825	4,370
2016-2018	11,970	1,105	13,075
	<u>\$ 27,830</u>	<u>\$ 7,168</u>	<u>\$ 34,998</u>

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(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, \$2.059 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 \$65 thousand. The remaining portion of the liability, \$1.994 million, as of June 30, 2010, is included in the Department-wide financial statements and is expected to be paid from future resources of the General Fund.

The Department's workers' compensation liability, \$536.805 million, has been determined using claims outstanding and a projection of claims to be submitted, based upon prior years experience, to the Department. The liability is recorded in the Workers' Compensation Revolving Fund, an internal service fund.

The following is a reconciliation of the Department's claims liabilities for the years June 30, 2009 and June 30, 2010 (amounts expressed in thousands).

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

Notes to Financial Statements

June 30, 2010

Year Ended June 30	<u>Changes in Claims Liability Balances</u>			
	Beginning Balance	Current Year Claims and Changes in Estimates	Claim Payments	Ending Balance
Primary Government-Governmental Activities:				
2009				
Auto Liability	\$ 2,249	\$ 1,542	\$ 1,922	\$ 1,869
Workers' Compensation	354,496	141,413	97,974	397,935
Total	<u>\$ 356,745</u>	<u>\$ 142,955</u>	<u>\$ 99,896</u>	<u>\$ 399,804</u>
2010				
Auto Liability	\$ 1,869	\$ 1,761	\$ 1,571	\$ 2,059
Workers' Compensation	397,935	258,817	119,947	536,805
Total	<u>\$ 399,804</u>	<u>\$ 260,578</u>	<u>\$ 121,518</u>	<u>\$ 538,864</u>

(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 2010 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2010. 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 2010, the employer contribution rate was 28.377%. 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.

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

Notes to Financial Statements

June 30, 2010

(9) Post-employment Benefits

The State provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by the Department of Healthcare and Family Services along with the Department of Central Management Services. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health, dental, and vision benefits include basic benefits for annuitants and dependents under the State's self-insurance plan and insurance contracts currently in force. Annuitants may be required to contribute towards health, dental, and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the State Employee's Retirement System do not contribute towards health, dental, and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health, dental, and vision benefits. Annuitants also receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefit becomes \$5,000.

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

A summary of post-employment benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the financial statements of the Department of Healthcare and Family Services. A copy of the financial statements of the Department of Healthcare and Family Services may be obtained by writing to the Department of Healthcare and Family Services, 201 South Grand Ave., Springfield, Illinois, 62763-3838.

(10) Fund Deficits

The General Fund and the Road Fund, major funds, had deficit fund balances of \$400.957 and \$100.813 million, respectively, at June 30, 2010. The General Fund and Road Fund deficits result from charges from internal service funds for the liabilities of the workers compensation program recognized at June 30, 2010 which will be paid from future year appropriations. In addition the Efficiency Initiatives Revolving Fund, a nonmajor governmental fund, had a deficit fund balance of \$3 thousand, at June 30, 2010.

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

Notes to Financial Statements

June 30, 2010

(11) 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 \$110.172 million for the year ended June 30, 2010.

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

<u>Year ending June 30,</u>	<u>Amount</u>
2011	\$ 97,672
2012	79,339
2013	62,277
2014	47,010
2015	27,729
2016-2020	48,234
	<u>\$ 362,261</u>

(b) 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 2009 and 2010. The Department estimates the SSRF refund may result in a payment of up to \$7.112 million and the CRF refund may result in payment of up to \$3.068 million. The Department has recorded a liability in the respective fund.

(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.

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

Notes to Financial Statements

June 30, 2010

(12) 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 2010 are included in the State's Comprehensive Annual Financial Report for the year ended June 30, 2010. 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 \$16,500 and 15,500 (\$22,000 and \$20,500 for participants age 50 or older) for calendar years 2010 and 2009, respectively. 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 \$33,000 for calendar years 2010 and 2009.

Participants may withdraw the current value of funds contributed upon termination of employment with the State of Illinois. 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. 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

Combining Balance Sheet -
Nonmajor Governmental Funds

June 30, 2010 (Expressed in Thousands)

	Special Revenue			Capital Projects	Total
	Efficiency Initiatives Revolving 0315	Minority and Female Business Enterprise 0352	State Surplus Property Revolving 0903	Capital Development 0141	
ASSETS					
Unexpended Appropriations	\$ -	\$ -	\$ -	\$ 78	\$ 78
Cash equity with State Treasurer	-	6	145	-	151
Receivables, net:					
Intergovernmental	-	-	9	-	9
Other	-	-	71	-	71
Due from other Department funds	-	-	441	-	441
Due from other State funds	-	-	116	-	116
Inventories	-	-	897	-	897
Total assets	\$ -	\$ 6	\$ 1,679	\$ 78	\$ 1,763
LIABILITIES					
Accounts payable and accrued liabilities	\$ -	\$ -	\$ 238	\$ 78	\$ 316
Due to other Department funds	-	-	230	-	230
Due to other State funds	3	-	-	-	3
Total liabilities	3	-	468	78	549
FUND BALANCES					
Fund balance reserved for inventories	-	-	897	-	897
Unreserved, undesignated	(3)	6	314	-	317
Total fund balances	(3)	6	1,211	-	1,214
Total liabilities and fund balances	\$ -	\$ 6	\$ 1,679	\$ 78	\$ 1,763

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, 2010 (Expressed in Thousands)

	Special Revenue			Capital Projects	Total
	Efficiency Initiatives Revolving 0315	Minority and Female Business Enterprise 0352	State Surplus Property Revolving 0903	Capital Development 0141	
REVENUES					
Other revenues	\$ -	\$ -	\$ 1,704	\$ -	\$ 1,704
Other charges for services	-	-	828	-	828
Total revenues	<u>-</u>	<u>-</u>	<u>2,532</u>	<u>-</u>	<u>2,532</u>
EXPENDITURES					
General government	-	-	2,005	160	2,165
Capital outlay	-	-	-	1,139	1,139
Total expenditures	<u>-</u>	<u>-</u>	<u>2,005</u>	<u>1,299</u>	<u>3,304</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>527</u>	<u>(1,299)</u>	<u>(772)</u>
OTHER SOURCES (USES) OF FINANCIAL RESOURCES					
Appropriations from State resources	-	-	-	8,094	8,094
Reappropriation to future year(s)	-	-	-	(6,795)	(6,795)
Net other sources (uses) of financial resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,299</u>	<u>1,299</u>
Net change in fund balances	<u>-</u>	<u>-</u>	<u>527</u>	<u>-</u>	<u>527</u>
Fund balances, July 1, 2009	(3)	6	(213)	-	(210)
Increase (decrease) for changes in inventories			897		897
FUND BALANCES, JUNE 30, 2010	<u>\$ (3)</u>	<u>\$ 6</u>	<u>\$ 1,211</u>	<u>\$ -</u>	<u>\$ 1,214</u>

State of Illinois
Department of Central Management Services

Combining Statement of Net Assets

Internal Service Funds

June 30, 2010 (Expressed in Thousands)

	State Garage Revolving 0303	Statistical Services Revolving 0304	Paper and Printing Revolving 0308	Communications Revolving 0312	Facilities Management 0314	Professional Services 0317	Workers' Compensation Revolving 0332	Group Life Insurance Premium 1457	Total
ASSETS									
Cash equity with State Treasurer	\$ 1,738	\$ 9,882	\$ 71	\$ 6,500	\$ 10,228	\$ 4,596	\$ 9,015	\$ -	\$ 42,030
Cash and cash equivalents	-	-	-	-	3,766	-	-	-	3,766
Securities lending collateral equity of State Treasurer	-	-	-	-	1,858	961	2,690	-	5,509
Receivables, net:									
Intergovernmental	41	-	-	1,193	-	-	-	-	1,234
Other	8	-	-	1,941	11	2	6	10,063	12,031
Due from other Department funds	173	3,071	-	12,366	18,320	-	514,431	1	548,362
Due from other State funds	9,381	59,254	-	44,622	91,635	1,049	13,751	3,701	223,393
Due from State of Illinois component units	6	157	-	695	11	-	-	757	1,626
Inventories	1,679	-	-	-	-	-	-	-	1,679
Total current assets	13,026	72,364	71	67,317	125,829	6,608	539,893	14,522	839,630
Capital assets not being depreciated	-	-	-	-	38,369	-	-	-	38,369
Capital assets being depreciated, net	302	10,181	-	13,761	202,694	-	-	-	226,938
Total noncurrent assets	302	10,181	-	13,761	241,063	-	-	-	265,307
Total assets	13,328	82,545	71	81,078	366,892	6,608	539,893	14,522	1,104,937
LIABILITIES									
Accounts payable and accrued liabilities	7,577	14,755	-	20,178	65,045	521	75	5,150	113,301
Intergovernmental payables	29	7,263	-	3,114	1,774	21	3	-	12,204
Due to other State fiduciary funds	222	907	-	304	482	130	24	-	2,069
Due to other Department funds	3,233	25,914	-	733	1,870	70	44	9,372	41,236
Due to other State funds	10	26	-	38	618	15	2	-	709
Due to State of Illinois component units	-	-	-	13	470	-	-	-	483
Obligations under securities lending of State Treasurer	-	-	-	-	1,858	961	2,690	-	5,509
Deferred revenue	1	3	-	-	1,426	-	-	-	1,430
Current portion of long-term obligations	251	2,870	-	1,209	3,000	46	143,578	-	150,954
Total current liabilities	11,323	51,738	-	25,589	76,543	1,764	146,416	14,522	327,895
Noncurrent portion of long-term obligations	1,806	9,332	-	3,388	27,781	702	393,477	-	436,486
Total liabilities	13,129	61,070	-	28,977	104,324	2,466	539,893	14,522	764,381
NET ASSETS									
Invested in capital assets, net of related debt	(95)	4,048	-	10,732	213,000	-	-	-	227,685
Restricted for debt services	-	-	-	-	3,766	-	-	-	3,766
Unrestricted	294	17,427	71	41,369	45,802	4,142	-	-	109,105
Total net assets	\$ 199	\$ 21,475	\$ 71	\$ 52,101	\$ 262,568	\$ 4,142	\$ -	\$ -	\$ 340,556

State of Illinois

Department of Central Management Services

**Combining Statement of Revenues, Expenses and
Changes in Net Assets - Internal Service Funds**

For the Year Ended June 30, 2010 (Expressed in Thousands)

	State Garage Revolving 0303	Statistical Services Revolving 0304	Paper and Printing Revolving 0308	Communications Revolving 0312	Facilities Management 0314	Professional Services 0317	Workers' Compensation Revolving 0332	Group Life Insurance Premium 1457	Total
OPERATING REVENUES									
Charges for sales and services	\$ 39,771	\$ 135,881	\$ -	\$ 116,320	\$ 206,165	\$ 14,827	\$ 260,858	\$ 20,321	\$ 794,143
Other	30	-	-	-	-	-	-	-	30
Total operating revenues	39,801	135,881	-	116,320	206,165	14,827	260,858	20,321	794,173
OPERATING EXPENSES									
Cost of sales and services	34,584	126,475	1	81,268	189,251	11,294	-	20,337	463,210
Claims and judgments	-	-	-	-	-	-	260,963	-	260,963
General and administrative	7,181	2,423	(1)	9,267	7,166	1,086	-	71	27,193
Depreciation	312	8,122	-	9,326	13,114	-	-	-	30,874
Other	264	-	-	12,118	-	-	-	-	12,382
Total operating expenses	42,341	137,020	-	111,979	209,531	12,380	260,963	20,408	794,622
Operating income (loss)	(2,540)	(1,139)	-	4,341	(3,366)	2,447	(105)	(87)	(449)
NONOPERATING REVENUES (EXPENSES)									
Interest and investment income	-	-	-	-	66	22	105	87	280
Interest expense	-	(766)	-	(200)	(3,934)	-	-	-	(4,900)
Other expenses	-	(387)	-	-	-	-	-	-	(387)
Income (loss) before contributions and transfers	(2,540)	(2,292)	-	4,141	(7,234)	2,469	-	-	(5,456)
Contributions of capital assets	-	306	-	-	6,404	-	-	-	6,710
Transfers-out	-	-	-	-	-	(3,500)	-	-	(3,500)
Change in net assets	(2,540)	(1,986)	-	4,141	(830)	(1,031)	-	-	(2,246)
Net assets, July 1, 2009	2,739	23,461	71	47,960	263,398	5,173	-	-	342,802
NET ASSETS, JUNE 30, 2010	\$ 199	\$ 21,475	\$ 71	\$ 52,101	\$ 262,568	\$ 4,142	\$ -	\$ -	\$ 340,556

State of Illinois
Department of Central Management Services

Combining Statement of Cash Flows
Internal Service Funds

For the Year Ended June 30, 2010 (Expressed in Thousands)

	State Garage Revolving 0303	Statistical Services Revolving 0304	Paper and Printing Revolving 0308	Communications Revolving 0312	Facilities Management 0314	Professional Services 0317	Workers' Compensation Revolving 0332	Group Life Insurance Premium 1457	Total
CASH FLOWS FROM OPERATING ACTIVITIES									
Cash received from sales and services	\$ 546	\$ -	\$ -	\$ 14,372	\$ 741	\$ -	\$ -	\$ -	\$ 15,659
Cash received from transactions with other funds	40,145	137,719	-	84,992	180,366	18,800	126,883	21,229	610,134
Cash payments to suppliers for goods and services	(26,337)	(60,923)	-	(77,063)	(146,483)	(3,701)	(3,441)	(28,393)	(346,341)
Cash payments to employees for services	(14,259)	(66,566)	-	(17,153)	(28,127)	(9,518)	-	-	(135,623)
Cash payments for workers compensation	-	-	-	-	-	-	(118,626)	-	(118,626)
Cash receipts from other operating activities	30	-	(1)	-	-	-	-	-	29
Net cash provided (used) by operating activities	125	10,230	(1)	5,148	6,497	5,581	4,816	(7,164)	25,232
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES									
Transfers-out to other funds	-	-	-	-	-	(3,500)	-	-	(3,500)
Other noncapital financing activities	-	(506)	-	(103)	(1,916)	-	-	-	(2,525)
Net cash provided (used) by noncapital financing activities	-	(506)	-	(103)	(1,916)	(3,500)	-	-	(6,025)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES									
Acquisition and construction of capital assets	-	(2,418)	-	(1,225)	(171)	-	-	-	(3,814)
Principal paid on capital debt	(309)	(4,011)	-	(2,324)	(2,734)	-	-	-	(9,378)
Interest paid on capital debt	-	(234)	-	(97)	(1,749)	-	-	-	(2,080)
Net cash (used) by capital and related financing activities	(309)	(6,663)	-	(3,646)	(4,654)	-	-	-	(15,272)
CASH FLOWS FROM INVESTING ACTIVITIES									
Interest and dividends on investments	-	-	-	-	68	22	102	92	284
Net cash provided by investing activities	-	-	-	-	68	22	102	92	284
Net increase (decrease) in cash and cash equivalents	(184)	3,061	(1)	1,399	(5)	2,103	4,918	(7,072)	4,219
Cash and cash equivalents, July 1, 2009	1,922	6,821	72	5,101	13,999	2,493	4,097	7,072	41,577
CASH AND CASH EQUIVALENTS, JUNE 30, 2010	\$ 1,738	\$ 9,882	\$ 71	\$ 6,500	\$ 13,994	\$ 4,596	\$ 9,015	\$ -	\$ 45,796
Reconciliation of cash and cash equivalents to the statement of net assets:									
Total cash and cash equivalents per the statement of net assets					\$ 3,766	\$ -	\$ -	\$ -	\$ 3,766
Add: cash equity with State Treasurer	1,738	9,882	71	6,500	10,228	4,596	9,015	-	42,030
CASH AND CASH EQUIVALENTS, JUNE 30, 2010	\$ 1,738	\$ 9,882	\$ 71	\$ 6,500	\$ 13,994	\$ 4,596	\$ 9,015	\$ -	\$ 45,796

State of Illinois
Department of Central Management Services

Combining Statement of Cash Flows

Internal Service Funds

For the Year Ended June 30, 2010 (Expressed in Thousands)

	State Garage Revolving 0303	Statistical Services Revolving 0304	Paper and Printing Revolving 0308	Communications Revolving 0312	Facilities Management 0314	Professional Services 0317	Workers' Compensation Revolving 0332	Group Life Insurance Premium 1457	Total
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:									
OPERATING INCOME (LOSS)	\$ (2,540)	\$ (1,139)	\$ -	\$ 4,341	\$ (3,366)	\$ 2,447	\$ (105)	\$ (87)	\$ (449)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:									
Depreciation	312	8,122	-	9,326	13,114	-	-	-	30,874
Provision for uncollectible accounts	-	-	-	57	-	-	-	-	57
Changes in assets and liabilities:									
(Increase) decrease in accounts receivable	3	-	-	(54)	(7)	-	-	(5,503)	(5,561)
(Increase) decrease in intergovernmental receivables	(7)	-	-	(209)	-	-	-	-	(216)
(Increase) decrease in due from other funds	926	5,002	-	(15,072)	(26,269)	3,987	(133,975)	(3,684)	(169,085)
(Increase) decrease in due from component units	(1)	(142)	-	352	(5)	-	-	(276)	(72)
(Increase) decrease in inventories	(109)	-	-	-	-	-	-	-	(109)
Increase (decrease) in accounts payable and accrued liabilities	260	(9,252)	-	7,919	21,293	(695)	11	28	19,564
Increase (decrease) in intergovernmental payables	(7)	(2,850)	-	(2,032)	(408)	(1)	(1)	-	(5,299)
Increase (decrease) in due to other funds	1,214	10,621	(1)	505	1,920	21	(28)	2,358	16,610
Increase (decrease) in due to component units	(1)	-	-	(59)	(941)	-	-	-	(1,001)
Increase (decrease) in deferred revenues	(1)	(172)	-	-	1,223	-	-	-	1,050
Increase (decrease) in other liabilities	76	40	-	74	(57)	(178)	138,914	-	138,869
Total adjustments	2,665	11,369	(1)	807	9,863	3,134	4,921	(7,077)	25,681
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 125	\$ 10,230	\$ (1)	\$ 5,148	\$ 6,497	\$ 5,581	\$ 4,816	\$ (7,164)	\$ 25,232
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES									
Cost of installment purchases	\$ -	\$ 411	\$ -	\$ 1,538	\$ -	\$ -	\$ -	\$ -	\$ 1,949
Gain (loss) on sale of property and equipment	\$ -	\$ (387)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (387)
Transfer of capital assets, net of related debt, to/from other State funds	\$ -	\$ 306	\$ -	\$ -	\$ 6,404	\$ -	\$ -	\$ -	\$ 6,710

State of Illinois

Department of Central Management Services

Combining Statement of Fiduciary Net Assets

Agency Funds

June 30, 2010 (Expressed in Thousands)

	Flexible Spending Account 0202	Group Insurance Premium 0457	Total
ASSETS			
Cash equity with State Treasurer	\$ 1,489	\$ 8,050	\$ 9,539
Cash and cash equivalents	4,373	-	4,373
Other receivables, net	-	940	940
Securities lending collateral equity of State Treasurer	-	3,295	3,295
Total assets	\$ 5,862	\$ 12,285	\$ 18,147
LIABILITIES			
Accounts payable and accrued liabilities	\$ 5,862	\$ 8,990	\$ 14,852
Obligations under securities lending of State Treasurer	-	3,295	3,295
Total liabilities	\$ 5,862	\$ 12,285	\$ 18,147

State of Illinois

Department of Central Management Services

Combining Statement of Changes in Assets and Liabilities

Agency Funds

For the Year Ended June 30, 2010 (Expressed in Thousands)

	Balance at				Balance at	
	June 30, 2009	Additions	Deletions		June 30, 2010	
Flexible Spending Account Fund (0202):						
ASSETS						
Cash equity with State Treasurer	\$ 2,295	\$ 29,550	\$ 30,356	\$	1,489	
Cash and cash equivalents	3,257	29,704	28,588		4,373	
Total assets	\$ 5,552	\$ 59,254	\$ 58,944	\$	5,862	
LIABILITIES						
Accounts payable and accrued liabilities	\$ 5,527	\$ 29,182	\$ 28,847	\$	5,862	
Due to component units	25	368	393		-	
Total liabilities	\$ 5,552	\$ 29,550	\$ 29,240	\$	5,862	
Group Insurance Premium Fund (0457):						
ASSETS						
Cash equity with State Treasurer	\$ 8,511	\$ 54,658	\$ 55,119	\$	8,050	
Other receivables, net	-	940	-		940	
Securities lending collateral equity of State Treasurer	2,594	60,529	59,828		3,295	
Total assets	\$ 11,105	\$ 116,127	\$ 114,947	\$	12,285	
LIABILITIES						
Accounts payable and accrued liabilities	\$ 8,511	\$ 55,598	\$ 55,119	\$	8,990	
Obligations under securities lending of State Treasurer	2,594	60,529	59,828		3,295	
Total liabilities	\$ 11,105	\$ 116,127	\$ 114,947	\$	12,285	
Total						
ASSETS						
Cash equity with State Treasurer	\$ 10,806	\$ 84,208	\$ 85,475	\$	9,539	
Cash and cash equivalents	3,257	29,704	28,588		4,373	
Other receivables, net	-	940	-		940	
Securities lending collateral equity of State Treasurer	2,594	60,529	59,828		3,295	
Total assets	\$ 16,657	\$ 175,381	\$ 173,891	\$	18,147	
LIABILITIES						
Accounts payable and accrued liabilities	\$ 14,038	\$ 84,780	\$ 83,966	\$	14,852	
Due to component units	25	368	393		-	
Obligations under securities lending of State Treasurer	2,594	60,529	59,828		3,295	
Total liabilities	\$ 16,657	\$ 145,677	\$ 144,187	\$	18,147	



3201 West White Oaks Drive, Suite 102 • Springfield, IL 62704

INDEPENDENT AUDITORS' 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 the financial statements of the governmental 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, 2010, which collectively comprise the State of Illinois, Department of Central Management Services' basic financial statements and have issued our report thereon dated March 4, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Illinois, Department of Central Management Services' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements and not for the purpose of expressing an opinion on the effectiveness of the State of Illinois, Department of Central Management Services' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State of Illinois, Department of Central Management Services' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

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 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. We consider the deficiency described in finding 10-1 in the accompanying schedule of findings to be a material weakness.

A *significant deficiency* is a deficiency or 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. We consider the deficiencies described in findings 10-2 and 10-3 in the accompanying schedule of findings 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 of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as item 10-1.

The State of Illinois, Department of Central Management Services' responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the State of Illinois, Department of Central Management Services' responses and, accordingly, we express no opinion on the responses.

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

Sikich LLP

Springfield, Illinois
March 4, 2011

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

CURRENT FINDINGS –
GOVERNMENT AUDITING STANDARDS

FOR THE YEAR ENDED JUNE 30, 2010

10-1 FINDING: (Weaknesses in internal control over financial reporting)

The Department's year-end financial reporting in accordance with generally accepted accounting principles (GAAP) to the Office of the State Comptroller contained significant errors in the determination of certain year-end account balances and note disclosures.

The Office of the State Comptroller requires State agencies to prepare year-end financial reports (GAAP Reporting Packages) for each of their funds to assist in the annual preparation of the statewide financial statements and the Department's financial statements. In addition, the Department provides certain financial information to the Office of the State Comptroller regarding liabilities arising from automobile accidents involving State employees that are reported by another agency and in the State's Comprehensive Annual Financial Report. GAAP Reporting Package instructions are specified in the Statewide Accounting Management System (SAMS) Manual, Chapter 27. Management is responsible for adopting sound accounting policies and for establishing and maintaining internal controls that will, among other things, initiate, authorize, record, process, and report financial data reliably and consistent with management's assertions embodied in the financial statements. A material weakness is a deficiency, or combination of deficiencies in the design or operation of internal control such that there is a reasonable possibility that a material misstatement of the 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.

During our audit of the June 30, 2010 financial statements and testing of workers' compensation liability and automobile liability information, we noted material weaknesses and significant deficiencies resulting from the Department's failure to establish adequate internal control over the accumulation of information necessary for the proper determination of year-end liabilities as follows:

- During our testing of the workers compensation liability, we noted an error in the calculation resulting in an understatement of \$17.790 million in the General Revenue Fund and \$4.447 million in the Road Fund. The fiscal year 2010 financial statements have been adjusted to correct the \$22.237 million overstatement. Department officials stated the miscalculation was primarily due to a formula error in the spreadsheet that went undetected and therefore was not extrapolated for life expectancy liability estimates through 2054.

- During our testing of the workers compensation liability, we noted the Department did not have a formal evaluation or estimation process for claims (injuries having occurred prior to year-end) which were pending or were considered to be in the process of being awarded. The Department calculated the workers' compensation liability for pension-type awards based primarily on awards which have been settled as of the fiscal year end or very soon thereafter. Governmental accounting requires the Department to determine whether it is probable, reasonably possible, or remote that a liability has been incurred as of the date of the financial statements. If the Department determines it is probable that a liability has occurred and an amount can be reasonably estimated, such amount should be accrued as of the financial statement date. The Department's financial statements were subsequently adjusted to include additional workers compensation liabilities of \$33.363 million in the General Fund and \$8.341 million in the Road Fund, representing an estimate of the total liability based on historical averages. While we believe the financial statements are fairly stated at June 30, 2010, this methodology does not necessarily result in a reasonable estimate of the liability due to the wide range of potential settlement outcomes. The estimate would be more accurate if calculated based on projected outcomes based on the facts and circumstances inherent in the individual claims. At June 30, 2010 the Department reported a total of 226 unsettled claims of which a portion are likely to result in a pension-type award. Department officials have stated the error occurred because the methodology was newly developed last year and the Department believed GASB 10 requirements had been met and that no liability estimates were required for claimants that were not adjudicated pensioners as of the end of the fiscal year.
- The Department is responsible for reporting liabilities arising from accidents involving State employees. While testing large (>\$25,000) Automobile Liability reserves at June 30, 2010, we noted large claim payments that were classified as routine and improperly included in the calculation of the contingent liability for routine claims resulting in an overstatement of the auto liability for routine claims of approximately \$10,000. Department officials have stated this error was caused because the GAAP report was programmed to calculate large cases over \$25,000 by fund. The examples cited were in error because the amounts by fund for two claims were less than \$25,000, but combined (Road and GRF) were larger than \$25,000. The identified items were not material to either the Department statements or the Statewide statements.
- During our testing, we noted several other errors in the preparation of the Department's internal service fund financial statements. The errors included improperly calculating the amount reported as "invested in capital assets, net of related debt," overstating accounts payable, and errors in the calculation of the future minimum lease payments in the operating leases footnote. The errors noted were not individually significant to the financial statements taken as a whole; however, the Department did not have effective controls over the reconciliation and review functions to ensure amounts were properly reported at

June 30, 2010. Department officials have stated that the Department completes GAAP packages in accordance with deadlines established by the IOC. Data is compiled from various agency accounting sub systems into GAAP format. Estimates must be used and thresholds applied to complete required reporting in the timeframe imposed. Final fiscal year reconciliations of agency records are then completed as part of the normal financial reporting process. Any resulting differences are identified and if material, communicated to the IOC for adjustment in GAAP. The identified items were not material to either the Department statements or the Statewide statements.

As a result of these deficiencies, the Department's financial statements required material adjustments at June 30, 2010. In addition, other financial information pertaining to the internal service funds was inaccurate. (Finding Code No. 10-1, 09-1, 08-4, 07-4)

RECOMMENDATION:

We recommend the Department implement procedures to ensure GAAP Reporting Packages are prepared in a complete and accurate manner and information provided to other agencies and the Office of the State Comptroller for financial reporting purposes is complete and accurate. In addition, we recommend the Department evaluate pending workers compensation claims on a case-by-case basis to ensure the calculation of the year-end liability is accurate and representative of the probable loss to be incurred on such outstanding claims.

DEPARTMENT RESPONSE:

The Department concurs with the recommendations.

We note that, except for the findings related to Workers' Compensation calculations, the exceptions detailed above were not material to the Department statements or the Statewide statements. However, we have addressed each of the control recommendations in the following manner:

The Bureau of Benefits has corrected the errors in the financial statements pertaining to the Workers' Compensation program. A methodology has been developed to predict future liabilities for pending injuries, in compliance with GASB 10. We are reconciling our pensioner list on a quarterly basis to find any accidental formula omissions.

The Auto Liability GAAP report has been reprogrammed to distinguish claims greater than \$25,000 by case, rather than by fund total. The Bureau will work more closely with the Office of Finance and Management and Shared Services Center to incorporate a tiered review process to ensure the financial backup prepared for the GAAP reporting packages is accurate and fully discloses all pending liabilities.

We have increased and will continue to improve training and awareness among fiscal and Shared Services Accounting staff regarding proper treatment of transactions impacting financial statements, particularly during lapse period. In addition, we are implementing more stringent reviews of financial reports before transmission to the Office of the Comptroller so that adjustments are correct and amounts are recognized in the appropriate fiscal year for financial reporting.

10-2 FINDING: (Inadequate security and control over the midrange environment)

The Department did not institute or implement comprehensive standards to effectively secure and control the midrange environment.

In January 2005, the Department was tasked with the consolidation of the Information Technology functions of State government. At that time 11 agencies participated:

- Department of Agriculture;
- Department of Commerce and Economic Opportunity;
- Department of Employment Security;
- Department of Financial and Professional Regulation;
- Department of Healthcare and Family Services;
- Department of Human Services;
- Department of Natural Resources;
- Department of Public Health;
- Department of Revenue;
- Department of Transportation; and
- Environmental Protection Agency.

Although it has been five years since the consolidation, we continue to note inadequate security over the midrange environment. Specifically, during our review, we noted:

- Comprehensive standards to effectively secure and control the midrange environment had not been implemented across the midrange environment.
- Password length and content requirements were lacking.
- Some administrative and user accounts did not require passwords.
- Servers were not updated with the current vendor recommended patch or service pack levels.

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.

There were no comprehensive security or patching standards, processes, or procedures across the mid-range environment prior to IT consolidation. New comprehensive policies, standards, procedures, processes and associated tools needed to be developed and implemented to properly address the issues.

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 identify all assets and strengthen its security to protect its assets and resources against unauthorized access and misuse. (Finding Code No. 10-2, 09-4, 08-07, 07-11)

RECOMMENDATION:

The Department should institute and implement comprehensive standards to effectively secure and control the midrange environment for itself and consolidated agency systems.

The Department should formally communicate with consolidated agencies to determine their specific security requirements, and develop and implement guidelines that outline both the agencies' and the Department's responsibilities. In addition, the Department should provide a means for consolidated agencies to verify that security and integrity controls in the midrange environment are suitable and meet specific application requirements.

Specifically the Department should:

- Standardize password length and content requirements and ensure all accounts require a password.
- Update servers to current vendor recommended patch or service pack levels.

DEPARTMENT RESPONSE:

The Department concurs and will continue to strive toward standardization and maturity in the midrange environment to improve security.

The Department has implemented numerous policies, standards, processes, procedures and tools to help address these issues. A new Credential (password) Standard was implemented during this period. Additionally, the majority of the accounts identified during the recent audit as not requiring passwords were due to an automated account creation script, and this has been corrected. Further, a review of all accounts is being performed and any account set as not requiring a password will be corrected and exceptions documented. Additional processes and procedures are being implemented to address user and administrative account management.

Server patching and service pack level standards and processes have been developed and are being implemented. Due to the size and nature of the disparate environment, many of the legacy agency environments are not fully meeting the standards but we are working to improve these environments to meet the new standard.

Implementing these changes is very time and resource consuming in such a large and diverse environment. As staff resources and budgets permit, the Department will continue to implement additional controls to improve security.

10-3 FINDING: (Incomplete and inaccurate records over computer systems and equipment)

The Department did not maintain complete, accurate, or detailed records to substantiate its current midrange computer system and equipment.

In January 2005, the Department was tasked with the consolidation of the Information Technology functions of State government. At that time 11 agencies participated:

- Department of Agriculture;
- Department of Commerce and Economic Opportunity;
- Department of Employment Security;
- Department of Financial and Professional Regulation;
- Department of Healthcare and Family Services;
- Department of Human Services;
- Department of Natural Resources;
- Department of Public Health;
- Department of Revenue;
- Department of Transportation; and
- Environmental Protection Agency.

Although it has been five years since the consolidation, we continue to note discrepancies in the records over the midrange environment. During our review, the Department provided two independent server lists. Our review and comparison of the lists identified inconsistencies between the lists, servers without serial or asset numbers, and discrepancies with serial numbers, asset tags and server names.

Due to the lack of complete and accurate information, we are unable to conduct detailed testing.

There were no comprehensive and complete detailed server records across the mid-range environment prior to IT consolidation. New comprehensive inventory systems and associated tools needed to be developed and implemented to properly address the issues.

20 ILCS 405/405-10 (4) states 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...”

Additionally, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system, or systems, of internal fiscal controls to provide assurance funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use and misappropriation.

The lack of complete, accurate, and detailed records also inhibits the Department's ability to administer, secure, and monitor the midrange environment for consolidated agencies. With over 2,900 midrange servers under its control, it is imperative that detailed records be maintained to provide an accurate record of equipment inventory and a means to verify that security and integrity controls on individual servers are suitable and meet specific application requirements. (Finding Code No. 10-3, 09-5, 08-8, 07-12)

RECOMMENDATION:

We recommend the Department ensure complete, accurate and detailed records are available to substantiate its midrange computer systems and equipment.

DEPARTMENT RESPONSE:

The Department concurs and will strive to ensure that more complete, accurate and detailed records are available to substantiate its midrange computer systems and equipment.

DCMS recently completed a project to implement a Configuration Management Database (CMDB) to better track the mid-range computer systems. This database replaced several disparate databases, and represents all DCMS managed IT processing equipment. DCMS is in the process of manually reconciling its new databases to ensure accuracy. The implementation of these new tools and systems is very time and resource consuming in such a large and diverse environment.

In addition, we have plans to automate the reconciliation between the new CMDB and our other server management tools. This automation within the current CMDB will help to ensure that timely, accurate and more detailed records are maintained. DCMS is also conducting a physical inventory of the midrange environment that is expected to be completed in June. This will help us reconcile inconsistencies in our inventory data.

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

PRIOR FINDINGS NOT REPEATED

- A** **FINDING:** (Excess retained earnings balances representing noncompliance with federal regulations)

In the prior year, the Department generated excess retained earnings balances for the Communications Revolving Fund and failed to make adequate adjustments as required by OMB Circular A-87.

During the current period, it was determined that the finding will only be addressed in the Statewide Single Audit and was excluded from the financial statement audit. (Finding Code No. 09-2, 08-1, 07-1, 06-1)

- B** **FINDING:** (Reporting of costs not in accordance with federal regulations)

In the prior year, the Department recognized costs for federal reporting purposes different than reported in the Department's financial statements prepared in accordance with generally accepted accounting principles (GAAP), and unallowable costs were reported for federal purposes. The Department's financial statements were reported correctly; however, federal reporting was incorrect.

During the current period, it was determined that the finding will only be addressed in the Statewide Single Audit and was excluded from the financial statement audit. (Finding Code No. 09-3, 08-2, 07-2)