STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

FINANCIAL AUDIT

For the Year Ended June 30, 2017

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

SIKICH.COM

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
FINANCIAL AUDIT
For the Year Ended June 30, 2017

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STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

AGENCY OFFICIALS

Director	Michael Hoffman, Acting
Assistant Directors	Markus Veile Amiel Harper (8/1/17 – present) Jimmy Odom, Acting (1/13/17 – 5/8/17) Kimberly McCullough-Starks (through 7/25/16)
Chief Administrative Officer	Vacant
Chief Operating Officer	Jennifer Waldinger (through 6/15/17) Vacant (6/16/17 – present)
Chief Fiscal Officer	Mark Lewis (7/1/17 – present) Karen Pape (through 6/30/17)
General Counsel	Ryan Green, Acting (11/1/16 – present) LaShonda Hunt, Acting (7/1/16 – 10/31/16)
Chief Internal Auditor	Jack Rakers, Acting (1/2/17 – present) Deborah Abbott (through 12/31/16)

Agency main offices are located at:

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

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
FINANCIAL AUDIT
For the Year Ended June 30, 2017

FINANCIAL STATEMENT REPORT

SUMMARY

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

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

SUMMARY OF FINDINGS

The auditors identified matters involving the Department's internal control over financial reporting that they considered to be material weaknesses. The material weaknesses are described in the accompanying Schedule of Findings on pages 68-70 of this report as item:

2017-001 Weaknesses in internal control over financial reporting

EXIT CONFERENCE

The Department waived an exit conference. The responses to the recommendations were provided by Mr. Michael Hoffman, Acting Director, on January 17, 2018.

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CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS
Members of American Institute of Certified Public Accountants

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Springfield, IL 62704
217.793.3363

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INDEPENDENT AUDITOR'S REPORT

Honorable Frank J. Mautino
Auditor General
State of Illinois

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of Illinois, Department of Central Management Services, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the State of Illinois, Department of Central Management Services' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information for the State of Illinois, Department of Central Management Services, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2, the financial statements of the State of Illinois, Department of Central Management Services are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only that portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the State of Illinois, Department of Central Management Services. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2017, and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As described in Note 14 to the financial statements, the net position was restated as of July 1, 2016 due to the creation of the Department of Innovation and Technology through Executive Order 16-01, which moved two of the Department's funds to the new Department. The restatement totaled $210,289 thousand. In addition, the net position restricted for OPEB in the Community College Insurance Security Fund was also restated at July 1, 2016 due to reporting errors related to accounts payable and benefit payments. The restatement totaled $8,853 thousand. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Defined Benefit Other Postemployment Benefit Plans – Schedule of Funding Progress and Defined Benefit Other Postemployment Benefit Plans – Schedule of Employer Contributions on pages 54-55 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Illinois, Department of Central Management Services' basic financial statements. The accompanying supplementary information, such as 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 accompanying supplementary information, in the combining and individual fund financial schedules and statements, is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information, in the combining General Fund, Internal Service Funds, Pension (and Other Employee Benefit) Trust Funds, and Agency Funds schedules and individual fund financial statements, is fairly stated in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2018 on our consideration of the State of Illinois, Department of Central Management Services' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Illinois, Department of Central Management Services' internal control over financial reporting and compliance.

Restricted Use of this Auditor's Report

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

SIGNED ORIGINAL ON FILE

Springfield, Illinois
January 25, 2018

BASIC FINANCIAL STATEMENTS

Statement of Net Position

June 30, 2017 (Expressed in Thousands)

	Governmental Activities	Business-Type Activities	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
Unexpended appropriations	$ 30,457	$ -	$ 30,457
Cash equity with State Treasurer	167,827	7,290	175,117
Cash and cash equivalents	85,942	2,021	87,963
Securities lending collateral equity of State Treasurer	39,939	2,023	41,962
Receivables, net:			
Intergovernmental	4,626	934	5,560
Other	14,033	320	14,353
Due from other Department funds	1	-	1
Due from other Department fiduciary funds	8	-	8
Due from other State funds	696,358	-	696,358
Due from other State fiduciary funds	76	-	76
Due from State of Illinois component units	10,500	-	10,500
Inventories	2,031	-	2,031
Capital assets not being depreciated	38,807	-	38,807
Capital assets being depreciated, net	157,917	-	157,917
Total assets	1,248,522	12,588	1,261,110
Deferred outflows of resources - pensions	113,263	-	113,263
Total assets and deferred outflows of resources	1,361,785	12,588	1,374,373
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES			
Accounts payable and accrued liabilities	5,565,070	8,947	5,574,017
Intergovernmental payables	4,507	-	4,507
Due to Department funds	-	1	1
Due to other State fiduciary funds	253	-	253
Due to other State funds	5,799	21	5,820
Due to State of Illinois component units	396	-	396
Obligations under securities lending of State Treasurer	39,939	2,023	41,962
Unearned revenue	4,383	25	4,408
Long term obligations:			
Due within one year	118,260	5	118,265
Due subsequent to one year	16,998,586	14	16,998,600
Net pension liability	236,705	-	236,705
Total liabilities	22,973,898	11,036	22,984,934
Deferred inflows of resources - pensions	10,827	-	10,827
Total liabilities and deferred inflows of resources	22,984,725	11,036	22,995,761
NET POSITION			
Net investment in capital assets	192,499	-	192,499
Restricted for debt service	4,598	-	4,598
Unrestricted	(21,820,037)	1,552	(21,818,485)
Total net position	$ (21,622,940)	$ 1,552	$ (21,621,388)

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, 2017 (Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Federal	Net (Expense) Revenues and Changes in Net Position: Governmental Activities	Net (Expense) Revenues and Changes in Net Position: Business-Type Activities	Total
Primary government						
Governmental activities						
General government	$ 3,474,719	$ 1,290,517	$ 1,663	$ (2,182,539)		$ (2,182,539)
Education	1,302,830	-	-	(1,302,830)		(1,302,830)
Employment and economic development	29,965	-	-	(29,965)		(29,965)
Health and social services	411,976	-	-	(411,976)		(411,976)
Transportation	266,793	-	-	(266,793)		(266,793)
Public protection and justice	473,520	-	-	(473,520)		(473,520)
Environment and business regulation	65,526	-	-	(65,526)		(65,526)
Total governmental activities	6,025,329	1,290,517	1,663	(4,733,149)		(4,733,149)
Business type activities						
Insurance program	$ 43,904	$ 44,053			$ 149	149
Total business-type activities	43,904	44,053			149	149
Total primary government	$ 6,069,233	$ 1,334,570				$ (4,733,000)
General revenues						
Appropriations from State Resources				361,172	-	361,172
Lapsed appropriations				(59)	-	(59)
Receipts collected and transmitted to State Treasury				(74)	-	(74)
Interest and investment income				2,814	16	2,830
Other revenues				8,841	71	8,912
Capital transfers to other State agencies				(217)	-	(217)
Capital contributions				201	-	201
Amount of SAMS transfers-in				(1,315)	-	(1,315)
Transfers-out				(13,226)	-	(13,226)
Total general revenues and transfers				358,137	87	358,224
Change in net position				(4,375,012)	236	(4,374,776)
Net position, July 1, 2016, as restated				(17,247,928)	1,316	(17,246,612)
Net position, June 30, 2017				$ (21,622,940)	$ 1,552	$ (21,621,388)

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

Balance Sheet - Governmental Funds

June 30, 2017 (Expressed in Thousands)

	General Fund	Road Fund	Nonmajor State Surplus Property Revolving Fund	Total Governmental Funds
ASSETS				
Unexpended appropriations	$ 17,817	$ 12,640	$ -	$ 30,457
Cash equity with State Treasurer	-	-	1,024	1,024
Receivables, net:				
Other receivables	182	-	18	200
Due from other State funds	-	-	13	13
Total assets	$ 17,999	$ 12,640	$ 1,055	$ 31,694
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES				
Accounts payable and accrued liabilities	$ 7,540	$ -	$ 7	$ 7,547
Due to other Department funds	5,304,281	51,203	165	5,355,649
Due to other State funds	2,024	-	150	2,174
Due to State of Illinois component units	11	-	-	11
Matured portion of long-term obligations	188	-	-	188
Total liabilities	5,314,044	51,203	322	5,365,569
Deferred inflows of resources - unavailable revenue	169	-	-	169
Total liabilities and deferred inflows of resources	5,314,213	51,203	322	5,365,738
FUND BALANCES (DEFICITS)				
Committed - General government	-	-	733	733
Unassigned	(5,296,214)	(38,563)	-	(5,334,777)
Total fund balances (deficits)	(5,296,214)	(38,563)	733	(5,334,044)
Total liabilities, deferred inflows of resources and fund balances (deficits)	$ 17,999	$ 12,640	$ 1,055	$ 31,694

State of Illinois
Department of Central Management Services
Reconciliation of Governmental Funds Balance Sheet
to Statement of Net Position
June 30, 2017
(Expressed in Thousands)

Total fund balances-governmental funds		$ (5,334,044)
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		15,469
Revenues in the Statement of Activities that do not provide current financial resources are deferred in governmental funds.		169
Internal service funds are used to charge costs of certain activities to individual funds. The assets and liabilities of the internal service funds are reported as governmental activities in the Statement of Net Position.		322,807
Deferred outflows of resources related to pensions.		113,263
Deferred inflows of resources related to pensions.		(10,827)
Some liabilities reported in the Statement of Net Position do not require the use of current financial resources and therefore are not reported as liabilities in governmental funds. These liabilities consist of:		
Compensated absences	(1,459)	
Auto liability claims	(6,720)	
Net other postemployment benefit obligations	(16,484,893)	
Net pension liability	(236,705)	
		(16,729,777)
Net position of governmental activities		$ (21,622,940)

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

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

For the Year Ended June 30, 2017 (Expressed in Thousands)

	General Fund	Road Fund	Nonmajor State Surplus Property Revolving Fund	Total Governmental Funds
REVENUES				
Other	$ 71	$ -	$ 2,231	$ 2,302
Federal operating revenues	-	-	1,663	1,663
Other charges for services	-	-	257	257
Total revenues	71	-	4,151	4,222
EXPENDITURES				
General government	243,401	-	4,569	247,970
Education	1,050,198	-	-	1,050,198
Employment and economic development	40,023	-	-	40,023
Health and social services	431,718	-	-	431,718
Transportation	37,072	106,410	-	143,482
Public protection and justice	445,302	-	-	445,302
Environment and business regulation	83,480	-	-	83,480
Capital outlays	209	-	-	209
Total expenditures	2,331,403	106,410	4,569	2,442,382
Excess (deficiency) of revenues over (under) expenditures	(2,331,332)	(106,410)	(418)	(2,438,160)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES				
Appropriations from State resources	236,708	124,464	-	361,172
Lapsed appropriations	(59)	-	-	(59)
Receipts collected and transmitted to State Treasury	(74)	-	-	(74)
Amount of SAMS transfers-in	(1,315)	-	-	(1,315)
Transfers-in	1,315	-	-	1,315
Transfers-out	(10,000)	-	(1,315)	(11,315)
Net other sources (uses) of financial resources	226,575	124,464	(1,315)	349,724
Net change in fund balances	(2,104,757)	18,054	(1,733)	(2,088,436)
Fund balances (deficits), July 1, 2016	(3,191,457)	(56,617)	2,466	(3,245,608)
Fund Balances (Deficits), June 30, 2017	$ (5,296,214)	$ (38,563)	$ 733	$ (5,334,044)

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, 2017
(Expressed in Thousands)

Net change in fund balances	$ (2,088,436)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Capital outlays are reported as expenditures in governmental funds. However, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. This amount represents the excess of capital outlay over depreciation expense.	186
Transfers of capital assets to and from proprietary funds and other funds of the State are not recorded in governmental funds. This amount represents the net transfers of capital assets between governmental funds and proprietary funds or other funds of the State in the Statement of Activities.	(217)
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.	27,692
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 from the prior year.	6
Change in deferred outflows of resources.	98,039
Change in deferred inflows of resources.	(2,404)
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.	
Increase in compensated absences obligation	(9)
Decrease in auto liability claims	256
Increase in net other postemployment benefit obligations	(2,280,688)
Increase in net pension liability	(129,437)
Change in net position of governmental activities	$ (4,375,012)

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

Statement of Net Position - Proprietary Funds

June 30, 2017 (Expressed in Thousands)

	Governmental Activities - Internal Service Funds	Business-Type Activities - Enterprise Fund: Local Government Health Insurance Reserve Fund
ASSETS		
Cash equity with State Treasurer	$ 166,803	$ 7,290
Cash and cash equivalents	85,942	2,021
Securities lending collateral equity of State Treasurer	39,939	2,023
Receivables, net:		
Intergovernmental	4,626	934
Other	13,833	320
Due from other Department fiduciary funds	8	-
Due from other State fiduciary funds	76	-
Due from other Department funds	5,357,075	-
Due from other State funds	696,345	-
Due from State of Illinois component units	10,500	-
Inventories	2,031	-
Total current assets	6,377,178	12,588
Capital assets not being depreciated	38,278	-
Capital assets being depreciated, net	142,977	-
Total noncurrent assets	181,255	-
Total assets	6,558,433	12,588
LIABILITIES		
Accounts payable and accrued liabilities	5,557,523	8,947
Intergovernmental payables	4,507	-
Due to other State fiduciary funds	253	-
Due to other Department funds	1,425	1
Due to other State funds	3,625	21
Due to State of Illinois component units	385	-
Obligations under securities lending of State Treasurer	39,939	2,023
Unearned Revenue	4,383	25
Current portion of long-term obligations	116,472	5
Total current liabilities	5,728,512	11,022
Noncurrent portion of long-term obligations	507,114	14
Total liabilities	6,235,626	11,036
NET POSITION		
Net investment in capital assets	177,030	-
Restricted for debt service	4,598	-
Unrestricted	141,179	1,552
Total net position	$ 322,807	$ 1,552

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

State of Illinois
Department of Central Management Services

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

For the Year Ended June 30, 2017 (Expressed in Thousands)

	Governmental Activities - Internal Service Funds	Business-Type Activities - Enterprise Fund: Local Government Health Insurance Reserve Fund
OPERATING REVENUES		
Charges for sales and services	$ 3,293,092	$ 44,053
Other	37	-
Total operating revenues	3,293,129	44,053
OPERATING EXPENSES		
Cost of sales and services	215,992	-
Claims and judgments	2,566,802	-
Benefit payments and refund	-	42,605
General and administrative	59,109	1,299
Depreciation	17,264	-
Other	39	-
Total operating expenses	2,859,206	43,904
Operating income (loss)	433,923	149
NONOPERATING REVENUES (EXPENSES)		
Interest and investment income	2,814	51
Interest expense	(412,499)	(35)
Other revenue	6,502	71
Other expense	(23)	-
Income (loss) before contributions	30,717	236
Contributions of capital assets	201	-
Transfers-Out	(3,226)	-
Change in net position	27,692	236
Net position, July 1, 2016, as restated	295,115	1,316
Net position, June 30, 2017	$ 322,807	$ 1,552

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

Statement of Cash Flows - Proprietary Funds

For the Year Ended June 30, 2017 (Expressed in Thousands)

	Governmental Activities - Internal Service Funds	Business-Type Activities - Enterprise Fund: Local Government Health Insurance Reserve Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from sales and services	$ 132,070	$ 43,232
Cash received from transactions with other funds	1,203,288	-
Cash payments to suppliers for goods and services	(1,255,799)	(41,433)
Cash payments to employees for services	(35,984)	(791)
Cash payments for workers compensation	(103,860)	-
Cash receipts from other operating activities	49,537	1,155
Net cash provided (used) by operating activities	(10,748)	2,163
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Interest paid on revenue bonds and other borrowings	-	(35)
Transfers-out to other funds	(3,226)	-
Grants received	2,911	29
Other noncapital financing activities	(154,266)	-
Net cash provided (used) by noncapital financing activities	(154,581)	(6)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(3,125)	-
Principal paid on capital debt	(3,990)	-
Interest paid on capital debt	(373)	-
Net cash (used) by capital and related financing activities	(7,488)	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends on investments	2,810	47
Net cash provided (used) by investing activities	2,810	47
Net increase (decrease) in cash and cash equivalents	(170,007)	2,204
Cash and cash equivalents, July 1, 2016	422,752	7,107
CASH AND CASH EQUIVALENTS, JUNE 30, 2017	252,745	9,311
Reconciliation of cash and cash equivalents to the statement of net assets:		
Total cash and cash equivalents per the statement of net assets	85,942	2,021
Add: cash equity with State Treasurer	166,803	7,290
CASH AND CASH EQUIVALENTS, JUNE 30, 2017	252,745	9,311
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
OPERATING INCOME (LOSS)	433,923	149
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	17,264	-
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	4,596	(36)
(Increase) decrease in intergovernmental receivables	(3)	(487)
(Increase) decrease in due from other funds	(1,965,472)	-
(Increase) decrease in due from State of Illinois component units	(3,324)	-
(Increase) decrease in inventory	(351)	-
Increase (decrease) in accounts payable and accrued liabilities	1,538,917	2,656
Increase (decrease) in intergovernmental payables	(11,319)	(2)
Increase (decrease) in due to other State funds	(11,346)	(27)
Increase (decrease) in due to State of Illinois component units	(565)	-
Increase (decrease) in unearned revenues	4,383	-
Increase (decrease) in other liabilities	(17,451)	(90)
Total adjustments	(444,671)	2,014
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$ (10,748)	$ 2,163
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Loss on sale of equipment	$ 23	$ -
Transfer of capital assets, net of related debt, to/from other State funds	$ 201	$ -
Donated assets	$ -	$ -

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

Statement of Fiduciary Net Position
Pension (and Other Employee Benefit) Trust Funds
June 30, 2017 (Expressed in Thousands)

	Pension (and Other Employee Benefit) Trust Funds	Agency Funds
ASSETS		
Cash equity with State Treasurer	$ 46,623	$ 11,663
Cash and cash equivalents	59,288	4,612
Investments:		
Equities	3,491,057	-
Fixed income	166,539	-
Other	586,808	-
Intergovernmental receivables	1,569	-
Other receivables, net	15,898	7,430
Due from other State funds	114,012	-
Loans and note receivable, net	36,099	-
Securities lending collateral equity of State Treasurer	14,806	1,938
Total assets	4,532,699	25,643
LIABILITIES		
Accounts payable and accrued liabilities	281,911	23,669
Intergovernmental payables	2	-
Due to other Department funds	8	-
Due to other State fiduciary funds	11	-
Due to other State funds	375	-
Due to State of Illinois component units	-	36
Obligations under securities lending of State Treasurer	14,806	1,938
Current portion of long-term obligations	22	-
Noncurrent portion of long-term obligations	190	-
Total liabilities	297,325	$ 25,643
NET POSITION		
Unrestricted net position	(95,847)	
Restricted for pensions	4,331,221	
Total net position	$ 4,235,374	

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

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

For the Year Ended June 30, 2017 (Expressed in Thousands)

	Pension (and Other Employee Benefit) Trust Funds
Deposits/Contributions:	
Employer	$ 105,130
State	114,012
Members/participants	278,477
Other contributions	9,570
Total contributions	507,189
Investment income:	
Interest, dividends and other investment income	32,029
Net decrease in fair value of investments	451,490
Reimbursement of investment expenses not separable from investment income	2,168
Less: investment expense	(1,186)
Net investment income	484,501
Total additions	991,690
Deductions:	
Benefit payments	632,968
Refunds	65
Other Deductions	2,365
General and administration	19,308
Total deductions	654,706
Net increase in net position	336,984
Net position, July 1, 2016, as restated	3,898,390
Net position, June 30, 2017	$ 4,235,374

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

(1) Organization

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

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

(2) Summary of Significant Accounting Policies

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

(a) Financial Reporting Entity

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

1) Appointment of a voting majority of the component unit's board and either (a) the primary government's ability to impose its will, or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or

2) Fiscal dependence on the primary government.

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

(2) Summary of Significant Accounting Policies (continued)

(b) Basis of Presentation

The financial statements of the State of Illinois, Department of Central Management Services, are only intended to present the financial position, the changes in financial position, and the cash flows, when applicable, of that portion of the governmental activities, each major fund of the State of Illinois that is attributable to the transactions of the Department, and the aggregate remaining fund information of the State of Illinois that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2017, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

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

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

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

(2) Summary of Significant Accounting Policies (continued)

(b) Basis of Presentation (continued)

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

General – This is the State's primary operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund. The services which are administered by the Department and accounted for in the general fund include, among others, general government services and healthcare benefits for State employees. The Department's General Fund grouping contains two primary sub-accounts (General Revenue – 001 and Budget Stabilization - 686).

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

Additionally, the Department reports the following fund types:

Governmental Fund Types:

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

Proprietary Fund Types:

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

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

Fiduciary Fund Types:

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

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

(2) Summary of Significant Accounting Policies (continued)

(c) Measurement Focus and Basis of Accounting

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

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

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

(d) Shared Fund Presentation

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

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

Unexpended Appropriations

This "asset" account represents lapse period 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. For fiscal year 2017, the General Revenue Fund reports appropriations from State Resources for amounts authorized per consent decree to cover personnel costs.

(2) Summary of Significant Accounting Policies (continued)

(d) Shared Fund Presentation (continued)

Lapsed Appropriations

Lapsed appropriations are the legally adopted appropriations less net warrants issued for the 14 month period from July to August of the following year and re-appropriations to subsequent years according to SAMS records. In fiscal year 2017, the lapse period was extended through September.

Receipts Collected and Transmitted to State Treasury

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

Amount of SAMS Transfers-In

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

(e) Eliminations

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

(f) Cash and Cash Equivalents

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

(g) Inventories

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

(2) Summary of Significant Accounting Policies (continued)

(h) Inter-fund Transactions

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

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

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

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

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

(2) Summary of Significant Accounting Policies (continued)

(i) Capital Assets

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

Capitalization thresholds and the estimated useful lives are as follows:

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

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

(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.

(2) Summary of Significant Accounting Policies (continued)

(k) Pensions

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

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

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

(l) Deferred Outflows/Inflows of Resources

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

(m) Fund Balances

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

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

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

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

(2) Summary of Significant Accounting Policies (continued)

(m) Fund Balances (continued)

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

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

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

(n) Net Position

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

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

Restricted – This consists of legally restricted assets by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the State's policy to use restricted resources first, then unrestricted resources when they are needed.

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

The government-wide statement of net position reports $4.598 million of restricted assets which are restricted by enabling legislation.

(o) 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.

(p) 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, 2014, the annual fee of $30 per participant was reinstated. This fee had been waived for 2008 through 2013.

(2) Summary of Significant Accounting Policies (continued)

(q) Health Benefits Claim Processing

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

(r) New Accounting Pronouncements

Effective for the year ending June 30, 2017, the Department adopted the following GASB statements:

Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, the portion which addresses accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the Scope of Statement 68. The implementation of this Statement had no financial impact on the Department's net position or results of operations.

Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions,* which addresses the financial reports of defined benefit OPEB plans that are administered through trusts that meet specified criteria. This Statement follows the framework for financial reporting of defined OPEB plans in Statement 45 by requiring a statement of fiduciary net position and a statement of changes in fiduciary net position. In addition, this Statement requires more extensive note disclosures and RSI related to the measurement of the OPEB liabilities for which assets have been accumulated, including information about the annual money-weighted rates of return on plan investments. Statement 74 also sets forth note disclosure requirements for defined contribution OPEB plans. The implementation of this Statement impacted the Department's financial statements issued for the Teacher Retirement Insurance Plan (TRIP) and Community College Insurance Plan (CCIP).

Statement No. 77, *Tax Abatement Disclosures*, which is intended to improve financial reporting by requiring disclosure of tax abatement information about a reporting government's own tax abatement agreements and those that are entered into by other governments and that reduce the reporting government's tax revenues. The implementation of this Statement had no financial impact on the Department's net position or results of operations.

Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local government employers whose employees are provided with such pensions. This statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employees through a cost–sharing multiple-employer defined benefit pension plan that is not a state or local governmental pension plan, is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This statement

(2) Summary of Significant Accounting Policies (continued)

(r) New Accounting Pronouncements (continued)

establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. The implementation of this Statement had no financial impact on the Department's net position or results of operations.

Statement No. 79, *Certain External Investment Pools and Pool Participants,* which establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. Only the portion of this Statement related to certain provisions on portfolio quality, custodial credit risk and shadow pricing was implemented effective for the year ending June 30, 2017. The implementation of this Statement had no financial impact on the Department's net position or results of operations.

Statement No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement 14*, which amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The implementation of this Statement had no financial impact on the Department's net position or results of operations.

Statement No. 82, *Pension Issues – An Amendment of GASB Statements 67, 68 and 73* which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The implementation of this Statement had no financial impact on the Department's net position or results of operations.

(s) Future Adoption of GASB Statements

Effective for the year ending June 30, 2018, the Department will adopt the following GASB statements:

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* which replaces the requirements of Statement 45 and requires governments to report a liability on the face of the financial statements for the OPEB that they provide. This Statement requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about their OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government. The new RSI includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government's actual OPEB contributions to its contribution requirements.

Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting guidance for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

Statement No. 85, *Omnibus 2017*, which is intended to address practice issues that have been identified during implementation and application of certain GASB Statements. This statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits.

(2) Summary of Significant Accounting Policies (continued)

(s) Future Adoption of GASB Statements (continued)

Statement No 86, *Certain Debt Extinguishment Issues*, which is intended to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources (resources other than the proceeds of refunding debt) are placed in an irrevocable trust for the sole purpose of extinguishing debt. In addition, this statement improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

Effective for the year ending June 30, 2019, the Department will adopt the following GASB statement:

Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) and establishs criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs.

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

Statement No. 84, *Fiduciary Activities*, which is intended to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. In addition, this Statement establishes critieria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployments benefit arrangements that are fiduciary activities.

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

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

(3) Deposits and Investments

(a) Deposits

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

(3) Deposits and Investments

(a) Deposits (continued)

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

The carrying amount and bank balance of cash deposits held outside of the State Treasury at June 30, 2017 was $1.572 million which was uninsured and uncollateralized.

(b) Investments

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

As of June 30, 2017 the Department had the following fixed income investments outside of the State Treasury.

	Book Value (Thousands)	Fair Value (Thousands)	Maturity (Years)
Governmental activities:			
Money market mutual funds	$ 3,026	$ 3,026	0.071
Public Treasurer's Investment Pool	81,344	81,344	0.136
Total fixed income investments	$ 84,370	$ 84,370	
Fiduciary funds:			
Money market mutual funds	$ 47,338	$ 47,338	0.104
Debt mutual funds	119,201	119,201	8.300
Public Treasurer's Investment Pool	16,562	16,562	0.136
Total fixed income investments	$ 183,101	$ 183,101	
Business-type activities:			
Public Treasurer's Investment Pool	$ 2,021	$ 2,021	0.136
Total fixed income investments	$ 2,021	$ 2,021	

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.

(3) Deposits and Investments (continued)

(b) Investments (continued)

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

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

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

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

	Deposits	Investments
Governmental activities		
Amounts Per Note 3(a) & (b)	$ 1,572	$ 84,370
Cash equivalents	84,370	(84,370)
Amounts per Statement of Net Position	$ 85,942	$ -
Fiduciary funds		
Amounts Per Note 3(a) & (b)	$ -	$ 183,101
Cash equivalents	63,900	(63,900)
Blended trust funds	-	2,451,044
Equity trust funds	-	1,087,351
Guaranteed investment contracts	-	586,808
Amounts per Statement of Fiduciary Net Position	$ 63,900	$ 4,244,404
Business-type activities		
Amounts Per Note 3(b)	$ -	$ 2,021
Cash equivalents	2,021	(2,021)
Amounts per Statement of Net Position	$ 2,021	$ -

(3) Deposits and Investments (continued)

(d) Fair Value Hierarchy

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

		Fair Value Measurements Using		
	Fair Value	Level 1	Level 2	Level 3
Money market mutual funds	$ 50,364	$ 50,364	$ -	$ -
Debt mutual funds	119,201	119,201	-	-
Blended trust funds	2,451,044	2,451,044	-	-
Equity trust funds	1,087,351	1,087,351	-	-
Guaranteed investment contracts	586,808	586,808	-	-
Total	$ 4,294,768	$ 4,294,768	$ -	$ -

(e) Securities Lending Transactions

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

During fiscal year 2017 Deutsche Bank AG lent U.S. Agency securities and U.S. Treasury securities and received as collateral U.S. dollar denominated cash. Borrowers were required to deliver collateral for each loan equal to at least 100% of the aggregate fair value of the loaned securities. Loans are marked to market daily. If the fair value of collateral falls below 100%, the borrower must provide additional collateral to raise the fair value to 100%.

The State Treasurer did not impose any restrictions during fiscal year 2017 on the amount of loans available, eligible securities. In the event of borrower default, Deutsche Bank AG provides the State Treasurer with counterparty default indemnification. In addition, Deutsche Bank AG is obligated to indemnify the State Treasurer if Deutsche Bank AG loses any securities, collateral or investments of the State Treasurer in Deutsche Bank AG's custody. There were no losses during fiscal year 2017 resulting from a default of the borrowers or Deutsche Bank AG.

During fiscal year 2017, the State Treasurer and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in repurchase agreements with approved counterparties collateralized with securities approved by Deutsche Bank AG and marked to market daily at no less than 102%. Because the loans are terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The State Treasurer had no credit risk as a result of its securities lending program as the collateral held exceeded the fair value of the securities lent. The securities lending collateral invested in repurchase agreements and the fair value of securities on loan for the State Treasurer as of June 30, 2017 were $3,522,922,500 and $3,475,790,990 respectively. The securities lending collateral received that was invested in repurchase agreements and the fair value of securities on loan for the State Treasurer as of June 30, 2016 were $2,603,015,000 and $2,587,869,617, respectively.

(3) Deposits and Investments (continued)

(e) Securities Lending Transactions (continued)

In accordance with GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, paragraph 9, the Office of the State Treasurer has allocated the assets and obligations at June 30, 2017 arising from securities lending agreements to the various funds of the State. The total allocated to the Department at June 30, 2017 was $58.706 million.

(4) Inter-fund Balances and Activity

(a) Balances Due to/from Other Funds

The following balances (amounts expressed in thousands) at June 30, 2017 represent amounts due from other Department and State of Illinois funds.

	Due from				
Fund	**Other Department Funds**	**Other Department Fiduciary Funds**	**Other State Funds**	**Other State Fiduciary Funds**	**Description/Purpose**
Non-major governmental	$ -	$ -	$ 13	$ -	Due from other State funds for sales of federal surplus property.
Internal service	5,357,075	8	696,345	76	Due from other Department funds, other Department fiduciary funds and other State funds for services provided.
Fiduciary	-	-	114,012	-	Due from other State funds for insurance benefits
	$ 5,357,075	$ 8	$ 810,370	$ 76	

(4) Inter-fund Balances and Activity

(a) Balances Due to/from Other Funds

The following balances (amounts expressed in thousands) at June 30, 2017 represent amounts due to other Department and State of Illinois funds.

	Due to			
Fund	**Other Department Funds**	**Other State Funds**	**Other State Fiduciary Funds**	**Description/Purpose**
General	$ 5,304,281	$ 2,024	$ -	Due to other Department funds for internal service fund services received including healthcare claims and other State funds for services received.
Road	51,203	-	-	Due to other Department internal service funds for payment of healthcare claims.
Non-major governmental	165	150	-	Due to other Department funds for internal service fund services received, other State funds for services received.
Internal service	1,425	3,625	253	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	8	375	11	Due to other Department funds for internal service fund services received, other State funds for services received and other State fiduciary funds for retirement contributions.
Non-major enterprise	1	21	-	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.
	$ 5,357,083	$ 6,195	$ 264	

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

(b) Transfers from/to Other Funds

Inter-fund transfers in/out (amounts expressed in thousands) from/to other State funds for the year ended June 30, 2017 were as follows:

Fund	Transfers-in from Other Department Funds	Description/Purpose
General	$ 1,315	Excess cash
	$ 1,315	

Fund	Transfers-out to Other Department Funds	Transfers-out to Other State Funds	Description/Purpose
General	$ -	$ (10,000)	For costs of State government
Non-major governmental	(1,315)	-	Excess cash
Internal service	-	(3,226)	For Debt Service
	$ (1,315)	$ (13,226)	

(5) Capital Assets

Capital asset activity (amounts expressed in thousands) for the year ended June 30, 2017 was as follows:

	Balance June 30, 2016, as restated	Additions	Deletions	Net Transfers	Balance June 30, 2017
Governmental activities:					
Capital assets not being depreciated:					
Land and land improvements	$ 38,703	$ -	$ -	$ -	$ 38,703
Nondepreciable historical treasures and works of art	4	-	-	-	4
Construction in progress	-	-	-	100	100
Total capital assets not being depreciated	38,707	-	-	100	38,807
Capital assets being depreciated:					
Site improvements	3,761	-	-	-	3,761
Buildings and building improvements	686,902	168	-	66	687,136
Equipment	30,432	5,089	845	1,361	36,037
Depreciable historical treasures and works of art	970	-	-	-	970
Total capital assets being depreciated	722,065	5,257	845	1,427	727,904
Less accumulated depreciation:					
Site improvements	3,658	46	-	-	3,704
Buildings and building improvements	524,397	12,977	-	-	537,374
Equipment	22,954	4,264	822	1,543	27,939
Depreciable historical treasures and works of art	970	-	-	-	970
Total accumulated depreciation	551,979	17,287	822	1,543	569,987
Total capital assets being depreciated, net	170,086	(12,030)	23	(116)	157,917
Governmental activity capital assets, net	$ 208,793	$ (12,030)	$ 23	$ (16)	$ 196,724

Depreciation expense for governmental activities (amounts expressed in thousands) for the year ended June 30, 2017 was charged to functions as follows:

Governmental activities – General Government	$ 17,287

The carrying amount of idled, impaired capital assets, included above as capital assets being depreciated at June 30, 2017, was $14.900 million.

As of the date of the report, fair value could not be determined due to a valuation in process.

(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, 2017 were as follows:

	Balance 6/30/2016, as restated	Additions	Deletions	Balance June 30, 2017	Amounts Due Within One Year
Governmental activities:					
Compensated absences	$ 6,029	$ 7,028	$ 7,093	$ 5,964	$ 818
Certificates of participation	8,215	-	3,990	4,225	4,225
Workers' compensation claim obligations	632,233	74,856	92,233	614,856	111,669
Auto liability claim obligations	7,373	2,221	2,686	6,908	1,548
Net other postemployment benefit obligation	14,204,205	2,280,688	-	16,484,893	-
Net pension liability	107,268	129,437	-	236,705	-
Total governmental activities	$ 14,965,323	$ 2,494,230	$ 106,002	$ 17,353,551	$ 118,260
Business-type activities:					
Compensated absences	$ 109	$ 42	$ 132	$ 19	$ 5
Total business-type activities	$ 109	$ 42	$ 132	$ 19	$ 5
Fiduciary funds:					
Compensated absences	$ 228	$ 164	$ 180	$ 212	$ 22
Total fiduciary funds	$ 228	$ 164	$ 180	$ 212	$ 22

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

(b) Certificates of participation

The Department has financed the purchase of office buildings and land. The office buildings have a historical cost and accumulated depreciation of $48.740 and $23.509 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, 2017 are as follows:

Year Ending June 30	Principal	Interest	Total
2018	$ 4,225	$ 127	$ 4,352
	$ 4,225	$ 127	$ 4,352

(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, $6.908 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 $0.188 million. The remaining portion of the liability, $6.720 million, as of June 30, 2017, 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, $614.856 million, is based on third-party actuarial estimates using information provided by the Department. The actuaries have used claims outstanding, a projection of claims to be submitted, payroll and headcount data combined with state benefit provisions. The projection is also based on actuarial assumptions predicting paid loss development, claim inflation, mortality, and other factors.

The Department administers the State of Illinois' risk management for employee health and dental insurance benefit programs of the State. The Health Insurance Reserve Fund, an internal service fund, is used to account for these benefit programs, which are partially self-funded. Employees of the State may obtain health care services through participation in the State's group health insurance plan or through membership in one of eight health maintenance organization plans under contract with the State. The State maintains the risk of insurance for employees who participate in the State's group health insurance plan. Expenses and liabilities for claims, which include incurred but not reported or not processed benefit claims, have been recorded as liabilities in the amount of $1,549.644 million. Payments to the Health Insurance Reserve Fund are based on estimates of amounts needed to pay prior year unprocessed and current year claims.

(7) Risk Management

The following is a reconciliation of the Department's claims liabilities for the years June 30, 2016 and June 30, 2017 (amounts expressed in thousands):

Year Ended June 30	Beginning Balance	Changes in Estimates	Claim Payments	Ending Balance
Primary Government-Governmental Activities:				
2016				
Auto Liability	$ 4,916	$ 2,997	$ 540	$ 7,373
Workers' Compensation	623,767	107,209	98,743	632,233
Health claims incurred but not reported	611,854	762,557	308,771	1,065,640
Total:	$ 1,240,537	$ 872,763	$ 408,054	$1,705,246
2017				
Auto Liability	$ 7,373	$ 2,221	$ 2,686	$ 6,908
Workers' Compensation	632,233	74,856	92,233	614,856
Health claims incurred but not reported	1,065,640	876,912	392,908	1,549,644
Total:	$ 1,705,246	$ 953,989	$ 487,827	$2,171,408

(8) Pension

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

Benefit Provisions. SERS provides retirement benefits based on the member's final average compensation and the number of years of credited service that have been established. The retirement benefit formula available to general State employees is 1.67% for each year of covered service and 2.2% for each year of noncovered service. The maximum retirement annuity payable is 75% of final average compensation as calculated under the regular formula. The minimum monthly retirement annuity payable is $15.00 for each year of covered employment and $25 for each year of noncovered employment.

(8) Pension

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

Regular Formula Tier 1	Regular Formula Tier 2
A member must have a minimum of eight years of service credit and may retire at: • Age 60, with 8 years of service credit. • Any age, when the member's age (years & whole months) plus years of service credit (years & whole months) equal 85 years (1,020 months) (Rule of 85) with eight years of credited service. • Between ages 55-60 with 25-30 years of service credit (reduced 1/2 of 1% for each month under age 60). The retirement benefit is based on final average compensation and credited service. Final average compensation is the 48 highest consecutive months of service within the last 120 months of service. Under the Rule of 85, a member is eligible for the first 3% increase on January 1 following the first full year of retirement, even if the member is not age 60. If the member retires at age 60 or older, he/she will receive a 3% pension increase every year on January 1, following the first full year of retirement. If the member retires before age 60 with a reduced retirement benefit, he/she will receive a 3% pension increase every January 1 after the member turns age 60 and has been retired at least one full year. These pension increases are not limited by the 75% maximum.	A member must have a minimum of 10 years of credited service and may retire at: • Age 67, with 10 years of credited service. • Between ages 62-67 with 10 years of credited service (reduced 1/2 of 1% for each month under age 67). The retirement benefit is based on final average compensation and credited service. For regular formula employees, final average compensation is the average of the 96 highest consecutive months of service within the last 120 months of service. The retirement benefit is calculated on a maximum salary of $106,800. This amount increases annually by 3% or one-half of the Consumer Price Index, whichever is less. If the member retires at age 67 or older, he/she will receive a pension increase of 3% or one-half of the Consumer Price Index for the preceding calendar year, whichever is less, every year on January 1, following the first full year of retirement. The calendar year 2016 rate is $112,408. If the member retires before age 67 with a reduced retirement benefit, he/she will receive a pension increase of 3% or one-half of the Consumer Price Index for the preceding calendar year, whichever is less, every January 1 after the member turns age 67 and has been retired at least one full year. These pension increases are not limited by the 75% maximum.

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

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

(8) Pension (continued)

Occupational and non-occupational death benefits are also available through the System. Certain non-occupational death benefits vest after eighteen months of credited service. Occupational death benefits are provided from the date of employment.

Contributions. Contribution requirements of active employees and the State are established in accordance with Chapter 40, section 5/14-133 of the Illinois Compiled Statutes. Member contributions are based on fixed percentages of covered payroll ranging between 4.00% and 12.50%. Employee contributions are fully refundable, without interest, upon withdrawal from State employment. Tier 1 members contribute based on total annual compensation. Tier 2 members contribute based on an annual compensation rate not to exceed $106,800 with limitations for future years increased by the lessor of 3% or one-half of the annual percentage increase in the Consumer Price Index. For 2017, this amount was $112,408.

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

For fiscal year 2017, the required employer contributions were computed in accordance with the State's funding plan. This funding legislation provides for a systematic 50-year funding plan with an ultimate goal to achieve 90% funding of the plan's liabilities. In addition, the funding plan provided for a 15-year phase-in period to allow the State to adapt to the increased financial commitment. Since the 15-year phase-in period ended June 30, 2010, the State's contribution will remain at a level percentage of payroll for the next 35 years until the 90% funded level is achieved. For fiscal year 2017, the employer contribution rate was 44.568%. The Department's contribution amount for fiscal year 2017 was $1.289 million. In addition, the Department recorded $11.521 million as on-behalf revenue and expenditures in the General Revenue Fund (GRF) to account for payments made by SERS for GRF funded positions of the Department.

Pension liability, deferred outflows of resources, deferred inflows of resources and expense related to pensions. At June 30, 2017, the Department reported a liability of $236.705 million for its proportionate share of the State's net pension liability for SERS on the statement of net position. The net pension liability was measured as of June 30, 2016 (current year measurement date), and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Department's portion of the net pension liability was based on the Department's proportion of employer contributions relative to all employer contributions made to the plan during the year ended June 30, 2016. As of the current year measurement date of June 30, 2016, the Department's proportion was .6932%, which was an increase of 180.99% from its proportion measured as of the prior year measurement date of June 30, 2015.

(8) Pension (continued)

For the year ended June 30, 2017, the Department recognized pension expense of $46.612 million. At June 30, 2017, the Department reported deferred outflows and deferred inflows of resources related to the pension liability from the following sources (amounts expressed in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 362	$ 5,789
Changes of assumptions	36,384	-
Net difference between projected and actual investment earnings on pension plan investments	5,025	-
Changes in proportion	70,203	5,038
Department contributions subsequent to the measurement date	1,289	
Total	**$ 113,263**	**$ 10,827**

$1.289 million reported as deferred outflows of resources related to pensions resulting from Department contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized as pension expense as follows (amounts expressed in thousands):

2018	$ 29,464
2019	27,817
2020	26,900
2021	16,967
Total	**$ 101,148**

Actuarial Methods and Assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

Mortality: 105 percent of the RP2014 Healthy Annuitant mortality table, sex distinct, with rates projected to 2015. Generational mortality improvement factors were added.

Inflation: 2.75%

Investment Rate of Return: 7.00%, net of pension plan investment expense, including inflation.

Salary increases: Salary increase rates based on age related productivity and merit rates plus inflation.

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

(8) Pension (continued)

Retirement Age: Experience-based table of rates specific to the type of eligibility condition. Table was last updated for the June 30, 2014, valuation pursuant to an experience study of the period July 1, 2009 to June 30, 2013.

The long-term expected real rate of return on pension plan investments was determined based on the simulated average 20-year annualized geometric return for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage. For each major asset class that is included in the pension plan's target asset allocation, calculated as of the measurement date of June 30, 2016, the best estimates of the geometric real rates of return as summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rates of Return
U.S. Equity	23%	5.80%
Developed Foreign Equity	13%	6.10%
Emerging Market Equity	7%	8.50%
Private Equity	9%	7.40%
Hedge Funds	3%	3.60%
Intermediate Investment Grade Bonds	11%	1.60%
Long-Term Government Bonds	3%	1.60%
TIPS	5%	1.30%
High Yield and Bank Loans	5%	4.80%
Opportunistic Debt	4%	4.80%
Emerging Market Debt	2%	4.10%
Real Estate	10%	4.50%
Infrastructure	5%	5.90%
Total	100%	5.04%

Discount Rate. A discount rate of 6.64% was used to measure the total pension liability. This single blended discount rate was based on the expected rate of return on pension plan investments of 7.00% and a municipal bond rate of 2.85%, based on an index of 20 year general obligation bonds with an average AA credit rating as published by the Federal Reserve. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that contributions will be made based on the statutorily required rates under Illinois law. Based on these assumptions, the pension plan's fiduciary net position and future contributions will be sufficient to finance the benefit payments through the year 2072. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2072, and the municipal bond rate was applied to all benefit payments after that date.

(8) Pension (continued)

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

	1% Decrease 5.64%	Discount Rate 6.64%	1% Increase 7.64%
Agency's proportionate share of the net pension liability	$285,681	$236,705	$196,740

Payables to the pension plan. At June 30, 2017, the Department reported a payable of $0.147 million to SERS for the outstanding amount of contributions to the pension plans required for the year ended June 30, 2017.

(9) Post-employment Benefits

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

The health, dental, and vision benefits provided to and contribution amounts required from annuitants are the result of collective bargaining between the State and the various unions representing the State's and the university component units' employees in accordance with the limitations established in the Act. Therefore, the benefits provided and contribution amounts are subject to periodic change. The Act requires the State to provide life insurance benefits for annuitants equal to their annual salary as of the last day of employment until age 60, at which time the benefit amount becomes $5,000.

Funding Policy and Annual Other Postemployment Benefit Cost: In accordance with the Act, the State contributes towards the cost of an annuitant's coverage under the basic program of health, dental, and vision benefits an amount equal to five percent of that cost for each full year of creditable service up to a maximum of one hundred percent for an annuitant with twenty or more years of creditable service. For fiscal year 2017, the annual cost of the basic program of group health, dental, and vision benefits before the State's contribution was $10,772 ($6,191 if Medicare eligible) if the annuitant chose benefits provided by a health maintenance organizations and $13,695 ($4,512) if the annuitant chose other benefits. The State is not required to fund the plan other than the pay-as-you-go amount necessary to provide the current benefits to retirees.

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

(9) Post-employment Benefits (continued)

Employee Annual Salary	Annual Employee Health, Dental and Vision Contribution Requirements: Benefits Provided Through a Health Maintenance Organization	Annual Employee Health, Dental and Vision Contribution Requirements: Benefits Provided Through Other Than a Health Maintenance Organization
$30,200 and below	$816	$1,116
$30,201 - $45,600	$1,032	$1,332
$45,601 - $60,700	$1,236	$1,524
$60,701 - $75,900	$1,428	$1,728
$75,901 - $100.000	$1,644	$1,944
$100,000 - and above	$2,232	$2,532

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

Actuarially required contributions ("ARC")	$	2,592,145
Plus: Interest on net other postemployment benefit obligation (NOPEBO)		532,657
Adjustment to the ARC		(507,385)
Annual other postemployment benefits cost		2,617,417
Benefits paid during the year		(336,729)
Increase in NOPEBO		2,280,688
NOPEBO at June 30, 2016		14,204,205
NOPEBO at June 30, 2017	$	16,484,893

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

(9) Post-employment Benefits (continued)

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

	June 30, 2017
Annual Other Post employment Benefit Cost	
June 30, 2015	$2,292,465
June 30, 2016	$2,414,998
June 30, 2017	$2,617,417
Percentage AOPEBC Contributed	
June 30, 2015	35.33%
June 30, 2016	7.68%
June 30, 2017	12.86%
Net Other Postemployment Benefit Obligation	
June 30, 2015	$11,974,652
June 30, 2016	$14,204,205
June 30, 2017	$16,484,893

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

	(a)	(b)	(c)	(d)	(e)	(f)
Actuarial Valution Date	**Actuarial Value of Assets**	**Actuarial Accrued Liability ("AAL") Projected Unit Credit**	**Unfunded AAL ("UAAL") (b-a)**	**Funded Ratio (a/b)**	**Covered Payroll**	**UAAL as a Percentage of Covered Payroll (c/e)**
6/30/2016	$ -	38,137,570	38,137,570	0.00%	7,663,997	497.62%

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

(9) Post-employment Benefits (continued)

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

Actuarial valuation date of the actuarial required contributions	6/30/2016
Actuarial valuation date of the unfunded actuarial accrued liability	6/30/2016
Actuarial cost method	Proj. Unit Credit Cost
Amortization method	Level % of pay
Remaining amortization period	30 years, Open
Asset valuation method	Fair Value
Actuarial assumptions:	
Investment rate of return*	3.75%
Projected salary increases*	3.25%
Inflation Rate	2.75%

Healthcare cost trend rate:

Medical (Pre-Medicare)	8.0% grading down .5% in the first year to 7.5%, then grading down .01% in the second year to 7.49%, followed by grading down of .5% per year over 5 years to 4.99% in year 7.
Medical (Post-Medicare)	9.0% grading down .5% per year over 9 years to 4.5%
Dental	7.5% grading down .5% per year over 6 years to 4.5%
Vision	3.00%

*Includes inflation rate listed

(10) Commitments and Contingencies

(a) Operating leases

The Department leases parking lots, warehouses, and buildings, under the terms of non-cancelable operating lease agreements that require the Department to make minimum lease payments plus pay a pro rata share of certain operating costs. Rent expense under operating leases was $86.878 million for the year ended June 30, 2017.

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

Year Ending June 30	Total
2018	73,512
2019	62,713
2020	39,604
2021	27,100
2022	5,668
2023-2027	161
	$ 208,758

(b) Litigation

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

(11) Local Government Health Insurance Fund Risk Pool Disclosure

The Local Government Health Insurance Reserve Fund (LGHIRF) was established to provide health and dental insurance to participating local governments entities. Financial statements for the LGHIRF may be obtained from the Department. As of June 30, 2017, there were 276 local governmental entities participating with approximately 2,731 employees, 2,059 dependents and 216 retirees covered. Each participating local governmental unit is required to enter into written agreement with the Department. The agreement sets forth the responsibilities of both parties. The Department issues a publicly available financial report that includes financial statements and required information for LGHIRF. The financial report may be obtained from the Department of Central Management Services, 704 Stratton Office Building, Springfield, Illinois, 62706.

The responsibilities required of the Department are:

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

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

The responsibilities required of the local government units are:

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

The LGHIRF had previously contracted with third-party reinsurers for reinsurance coverage. However, no such coverage was in place for the year ended June 30, 2017.

The basis used in calculating the estimated liability for the future claims is based on claims reported but not paid during the fiscal year plus an estimate of claims incurred but not reported (IBNR). The estimate for claims incurred but not reported was calculated using a factor based on historical experience stated as a percentage of claims reported vs. total claims incurred during the policy cycle. For the year ended June 30, 2017, all claims are paid on a two-year claim cycle.

Based on the above method, the liability for future claims (amount expressed in thousands) at June 30, 2017 is as follows:

Claims incurred and reported but not paid as of June 30	$ 5,599
Estimated liability for claims incurred but not reported	2,725
Total estimated liability for future claims	$ 8,324

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

	2016	2017
Payments made for benefit claims	$39,106	$40,399
Less: liability for unpaid claims, beginning of year	4,492	6,118
Subtotal	34,614	34,281
Add: liability for unpaid claims, end of year	6,118	8,324
Total benefit claim payments and refunds	$40,732	$42,605

(12) Other Post-Employment Benefit Plans

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

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

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

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

(a) Teacher Retirement Insurance Plan (TRIP)

The TRIP is accounted for in the Teacher Health Insurance Security Fund which was established to provide health insurance for the Illinois Teachers' Retirement System (TRS) annuitants and dependent beneficiaries. As of June 30, 2017 there were 975 school districts participating with approximately 257,855 plan members. The Department works in conjunction with the Illinois Teachers' Retirement System to administer the TRIP.

The responsibilities required of the Department are:

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

The responsibilities required of the TRS are:

- Enrollment of annuitants and dependent that meet eligibility guidelines and who elect to participate
- Termination of membership for annuitants and dependents
- Collection and transmission of monthly annuitant and dependent premiums
- Collection and transmission of 0.97 percent contribution from active teachers and 0.72 percent contributions from school districts for program funding purposes

(b) Community College Insurance Plan (CCIP)

The CCIP is accounted for in the Community College Health Insurance Security Fund which was established to provide health and dental insurance for the Illinois community college retirees and dependent beneficiaries. As of June 30, 2017, there were 38 community colleges and 1 community college association participating with approximately 32,029 plan members. The Department works in conjunction with the State Universities Retirement Systems (SURS) to administer the CCIP.

The responsibilities required of the Department are:

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

The responsibilities required of the SURS are:

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

(13) State Employees' Deferred Compensation Plan General Description

Under State Employees' Deferred Compensation Plan (Plan) provisions, all State employees are eligible to voluntarily elect to contribute a portion of their compensation to the Plan through payroll deduction. The Plan was created in accordance with the Illinois Compiled Statutes (40 ILCS 5/24-101) and Section 457 of the Internal Revenue Code. The financial position and results of operations of the Plan for fiscal year 2017 are included in the State's Comprehensive Annual Financial Report for the year ended June 30, 2017. 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 $18,000 ($24,000 for participants age 50 or older) for calendar years 2016 and 2015, 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 $36,000 for calendar years 2016 and 2015.

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

(14) Prior Period Adjustment

On January 25, 2016, Governor Bruce Rauner signed Executive Order 16-01 to create the Illinois Department of Innovation and Technology (DoIT). Effective July 1, 2016 the Department's Bureau of Communications and Computer Services (BCCS) was consolidated into DoIT and the Department's authority to expend or obligate funds of the Statistical Services Revolving Fund (SSRF) and the Communications Revolving Fund (CRF) were transferred to DoIT. As a result, beginning net position on the Statement of Revenue, Expenses, and Fund Net Position – Proprietary Funds for the Statistical Services Revolving Fund and Communications Revolving Fund, both internal service funds of the State, has been restated as of July 1, 2016.

(14) Prior Period Adjustment (continued)

	Internal Service Funds	Department-Wide
	Governmental Activities - Internal Service Funds	Governmental Activities
Net position/fund deficit, June 30, 2016, as previously reported	$ 505,404	$ (17,037,639)
Statistical Services Revolving Fund (0304)	(102,107)	(102,107)
Communications Revolving Fund (0312)	(108,182)	(108,182)
Net position/fund deficit, June 30, 2016, as restated	$ 295,115	$ (17,247,928)

(14) Prior Period Adjustment (continued)

In addition, as the SSRF and CRF both reported capital asset and long-term obligation balances at June 30, 2016, beginning balances for footnotes 5 (Capital Assets) and 6 (Long-Term Obligations) have been restated as follows:

	Balance June 30, 2016, as previously reported	Statistical Services Revolving Fund (0304)	Communications Revolving Fund (0312)	Balance June 30, 2016, as restated
Capital Assets Footnote 5				
Capital assets not being depreciated:				
Construction in Progress	$ 607	$ -	$ (607)	$ -
Internally generated intangible assets in development	32,658	(32,658)	-	-
Capital assets being depreciated:				
Buildings and building improvements	687,991	-	(1,089)	686,902
Equipment	181,281	(65,918)	(84,931)	30,432
Infrastructure	58,899	-	(58,899)	-
Other intangible assets - fiber optic rights	3,881	-	(3,881)	-
Accumulated depreciation:				
Buildings and building improvements	525,033	-	(636)	524,397
Equipment	152,264	(55,884)	(73,426)	22,954
Infrastructure	7,597	-	(7,597)	-
Other intangible assets - fiber optic rights	1,220	-	(1,220)	-
Long-Term Obligations Footnote 6				
Governmental activities:				
Compensated absences	$ 11,816	$ (4,620)	$ (1,167)	$ 6,029

(14) Prior Period Adjustment (continued)

Also, the Community College Health Insurance Security Fund (CCHISF), Fund 0577, financial statements have been restated as of July 1, 2016 due to an understatement of accounts payable and benefit payments in the prior year.

		CCHISF
Net position restricted for OPEB June 30, 2016 as previously reported	$	(29,413)
Benefit payments and refunds		8,853
Net position restricted for OPEB June 30, 2016 as restated	$	(38,266)

(15) Subsequent Events

Subsequent to June 30, 2017 the State of Illinois passed a supplemental budget bill (P.A. 100-0021). The supplemental budget extended the Departments GRF appropriations from expiring on December 31, 2016 to expiring at the end of Fiscal Year 2017. The supplemental budget also increased the appropriation for the Road Fund for group insurance from $111.824 million to $124.464 million.

In addition, subsequent to June 30, 2017, the State of Illinois issued $4.5 billion in General Obligation Bonds, Series November 2017D. The Department received bond proceeds amounting to $3.982 billion into the Health Insurance Reserve Fund (0907) to be used to pay health insurance claims through June 30, 2017.

REQUIRED SUPPLEMENTARY INFORMATION

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

Required Supplementary Information

June 30, 2017

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

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)-- Projected Unit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
6/30/2013	$ -	$ 34,488,085	$ 34,488,085	0.00%	$ 7,631,281	451.93%
6/30/2014	$ -	$ 33,051,281	$ 33,051,281	0.00%	$ 7,660,475	431.45%
6/30/2016	$ -	$ 38,137,570	$ 38,137,570	0.00%	$ 7,663,997	497.62%

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

Required Supplementary Information

June 30, 2017

Schedule of Employer Contributions
(amounts expressed in thousands)
(unaudited)

Year Ended June 30	Annual Required Contribution (ARC)	Benefits Paid During The Year	Percentage ARC Contributed
2015	$ 2,170,058	$ 809,876	37.32%
2016	$ 2,275,294	$ 185,445	8.15%
2017	$ 2,592,145	$ 336,729	12.99%

Combining Schedule of Accounts - General Fund

June 30, 2017 (Expressed in Thousands)

	General Revenue Account 0001	Budget Stabilization Account 0686	Total
ASSETS			
Unexpended appropriations	$ 17,817	$ -	$ 17,817
Receivables, net:			
Other	182	-	182
Total assets	17,999	$ -	$ 17,999
LIABILITIES			
Accounts payable and accrued liabilities	$ 7,540	$ -	$ 7,540
Due to other Department funds	5,304,281	-	5,304,281
Due to other State funds	2,024	-	2,024
Due to State of Illinois component units	11	-	11
Matured portion of long-term obligations	188	-	188
Total liabilities	5,314,044	-	5,314,044
Deferred inflows of resources - unavailable revenue	169	-	169
Total liabilities and deferred inflows of resources	5,314,213	-	5,314,213
FUND BALANCES (DEFICITS)			
Unassigned	(5,296,214)	-	(5,296,214)
Total fund balances (deficits)	(5,296,214)	-	(5,296,214)
Total liabilities, deferred inflows of resources and fund balances (deficits)	$ 17,999	$ -	$ 17,999

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

For the Year Ended June 30, 2017 (Expressed in Thousands)

	General Revenue Account 0001	Budget Stabilization Account 0686	Total
REVENUES			
Other revenues	$ 71	$ -	$ 71
Total revenues	71	-	71
EXPENDITURES			
General government	200,651	42,750	243,401
Education	1,050,198	-	1,050,198
Employment and economic development	40,023	-	40,023
Health and social services	431,718	-	431,718
Transportation	37,072	-	37,072
Public protection and justice	445,302	-	445,302
Environment and business regulation	83,480	-	83,480
Capital outlays	209	-	209
Total expenditures	2,288,653	42,750	2,331,403
Excess (deficiency) of revenues over (under) expenditures	(2,288,582)	(42,750)	(2,331,332)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES			
Appropriations from State resources	193,958	42,750	236,708
Lapsed appropriations	(59)	-	(59)
Receipts collected and transmitted to State Treasury	(74)	-	(74)
Amount of SAMS transfers-in	(1,315)	-	(1,315)
Transfers-in	1,315	-	1,315
Transfers-out	(10,000)	-	(10,000)
Net other sources (uses) of financial resources	183,825	42,750	226,575
Net change in fund balances	(2,104,757)	-	(2,104,757)
Fund balances, July 1, 2016	(3,191,457)	-	(3,191,457)
Fund Balances, June 30, 2017	$ (5,296,214)	$ -	$ (5,296,214)

Combining Statement of Net Position
Internal Service Funds

June 30, 2017 (Expressed in Thousands)

	State Garage Revolving 0303	Facilities Management Revolving 0314	Professional Services 0317	Workers' Compensation Revolving 0332	Health Insurance Reserve 0907	Group Life Insurance Premium 1457	Total
ASSETS							
Cash equity with State Treasurer	$ 19,010	$ 30,070	$ 2,833	$ 27,327	$ 87,563	$ -	$ 166,803
Cash and cash equivalents	-	4,598	-	16,528	64,816	-	85,942
Securities lending collateral equity of State Treasurer	-	11,456	1,304	6,269	20,910	-	39,939
Receivables, net:							
Intergovernmental	3	-	-	-	4,623	-	4,626
Other	13	35	4	19	12,666	1,096	13,833
Due from other Department fiduciary funds	-	3	-	-	5	-	8
Due from other State fiduciary funds	75	1	-	-	-	-	76
Due from other Department funds	176	46,145	-	-	5,305,412	5,342	5,357,075
Due from other State funds	26,183	76,480	18,540	571,764	3,281	97	696,345
Due from State of Illinois component units	-	15	-	-	10,183	302	10,500
Inventories	2,031	-	-	-	-	-	2,031
Total current assets	47,491	168,803	22,681	621,907	5,509,459	6,837	6,377,178
Capital assets not being depreciated	-	38,278	-	-	-	-	38,278
Capital assets being depreciated, net	7,909	135,055	13	-	-	-	142,977
Total noncurrent assets	7,909	173,333	13	-	-	-	181,255
Total assets	55,400	342,136	22,694	621,907	5,509,459	6,837	6,558,433
LIABILITIES							
Accounts payable and accrued liabilities	12,234	50,032	1,053	637	5,486,736	6,831	5,557,523
Intergovernmental payables	27	4,448	2	-	30	-	4,507
Due to other State fiduciary funds	95	136	14	-	8	-	253
Due to other Department funds	1,097	167	131	-	30	-	1,425
Due to other State funds	232	1,650	291	1	1,445	6	3,625
Due to State of Illinois component units	62	323	-	-	-	-	385
Obligations under securities lending of State Treasurer	-	11,456	1,304	6,269	20,910	-	39,939
Unearned revenue	-	4,383	-	-	-	-	4,383
Current portion of long-term obligations	192	4,475	70	111,685	50	-	116,472
Total current liabilities	13,939	77,070	2,865	118,592	5,509,209	6,837	5,728,512
Noncurrent portion of long-term obligations	1,007	2,248	294	503,315	250	-	507,114
Total liabilities	14,946	79,318	3,159	621,907	5,509,459	6,837	6,235,626
NET POSITION							
Net investment in capital assets	7,909	169,108	13	-	-	-	177,030
Restricted for debt services	-	4,598	-	-	-	-	4,598
Unrestricted	32,545	89,112	19,522	-	-	-	141,179
Total net position	$ 40,454	$ 262,818	$ 19,535	$ -	$ -	$ -	$ 322,807

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

For the Year Ended June 30, 2017 (Expressed in Thousands)

	State Garage Revolving 0303	Facilities Management Revolving 0314	Professional Services 0317	Workers' Compensation Revolving 0332	Health Insurance Reserve 0907	Group Life Insurance Premium 1457	Total
OPERATING REVENUES							
Charges for sales and services	$ 51,522	$ 186,747	$ 22,704	$ 96,484	$ 2,916,916	$ 18,719	$ 3,293,092
Other	37	-	-	-	-	-	37
Total operating revenues	51,559	186,747	22,704	96,484	2,916,916	18,719	3,293,129
OPERATING EXPENSES							
Cost of sales and services	28,373	151,563	17,203	-	-	18,853	215,992
Claims and judgments	-	-	-	96,776	2,470,026	-	2,566,802
General and administrative	11,880	4,175	-	-	43,048	6	59,109
Depreciation	4,178	13,084	2	-	-	-	17,264
Other	39	-	-	-	-	-	39
Total operating expenses	44,470	168,822	17,205	96,776	2,513,074	18,859	2,859,206
Operating income (loss)	7,089	17,925	5,499	(292)	403,842	(140)	433,923
NONOPERATING REVENUES (EXPENSES)							
Interest and investment income	-	373	74	292	1,935	140	2,814
Interest expense	(170)	(39)	(11)	-	(412,279)	-	(412,499)
Other revenue	-	-	-	-	6,502	-	6,502
Other expenses	(23)	-	-	-	-	-	(23)
Income (loss) before contributions	6,896	18,259	5,562	-	-	-	30,717
Contributions of capital assets	35	166	-	-	-	-	201
Transfers-Out	-	(3,226)	-	-	-	-	(3,226)
Change in net position	6,931	15,199	5,562	-	-	-	27,692
Net position, July 1, 2016, as restated	33,523	247,619	13,973	-	-	-	295,115
Net position, June 30, 2017	$ 40,454	$ 262,818	$ 19,535	$ -	$ -	$ -	$ 322,807

Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2017 (Expressed in Thousands)

	State Garage Revolving 0303	Facilities Management Revolving 0314	Professional Services 0317	Workers' Compensation Revolving 0332	Health Insurance Reserve 0907	Group Life Insurance Premium 1457	Total
CASH FLOWS FROM OPERATING ACTIVITIES							
Cash received from sales and services	$ (284)	$ 795	$ -	$ -	$ 131,559	$ -	$ 132,070
Cash received from transactions with other funds	69,407	189,381	14,161	89,797	817,476	23,066	1,203,288
Cash payments to suppliers for goods and services	(40,257)	(168,898)	(19,885)	(10,326)	(993,227)	(23,206)	(1,255,799)
Cash payments to employees for services	(11,850)	(19,032)	-	-	(5,102)	-	(35,984)
Cash payments for workers compensation	-	-	-	(103,860)	-	-	(103,860)
Cash receipts from other operating activities	37	-	-	-	49,500	-	49,537
Net cash provided (used) by operating activities	17,053	2,246	(5,724)	(24,389)	206	(140)	(10,748)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES							
Grants received	-	-	-	-	2,911	-	2,911
Transfers-out to other funds	-	(3,226)	-	-	-	-	(3,226)
Other noncapital financing activities	(1,054)	(2,870)	(8)	-	(150,334)	-	(154,266)
Net cash provided (used) by noncapital financing activities	(1,054)	(6,096)	(8)	-	(147,423)	-	(154,581)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES							
Acquisition and construction of capital assets	(2,684)	(426)	(15)	-	-	-	(3,125)
Principal paid on capital debt	-	(3,990)	-	-	-	-	(3,990)
Interest paid on capital debt	-	(373)	-	-	-	-	(373)
Net cash (used) by capital and related financing activities	(2,684)	(4,789)	(15)	-	-	-	(7,488)
CASH FLOWS FROM INVESTING ACTIVITIES							
Interest and dividends on investments	-	350	74	284	1,962	140	2,810
Net cash provided by investing activities	-	350	74	284	1,962	140	2,810
Net increase (decrease) in cash and cash equivalents	13,315	(8,289)	(5,673)	(24,105)	(145,255)	-	(170,007)
Cash and cash equivalents, July 1, 2016	5,695	42,957	8,506	67,960	297,634	-	422,752
CASH AND CASH EQUIVALENTS, JUNE 30, 2017	$ 19,010	$ 34,668	$ 2,833	$ 43,855	$ 152,379	$ -	$ 252,745
Reconciliation of cash and cash equivalents to the statement of net position:							
Total cash and cash equivalents per the statement of net assets	-	4,598	-	16,528	64,816	-	85,942
Add: cash equity with State Treasurer	19,010	30,070	2,833	27,327	87,563	-	166,803
CASH AND CASH EQUIVALENTS, JUNE 30, 2017	$ 19,010	$ 34,668	$ 2,833	$ 43,855	$ 152,379	$ -	$ 252,745

Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2017 (Expressed in Thousands)

	State Garage Revolving 0303	Facilities Management Revolving 0314	Professional Services 0317	Workers' Compensation Revolving 0332	Health Insurance Reserve 0907	Group Life Insurance Premium 1457	Total
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:							
OPERATING INCOME (LOSS)	$ 7,089	$ 17,925	$ 5,499	$ (292)	$ 403,842	$ (140)	$ 433,923
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:							
Depreciation	4,178	13,084	2	-	-	-	17,264
Changes in assets and liabilities:							
(Increase) decrease in accounts receivable	1	2	-	-	(431)	5,024	4,596
(Increase) decrease in intergovernmental receivables	(3)	-	-	-	-	-	(3)
(Increase) decrease in due from other funds	17,110	(2,195)	(8,546)	(6,671)	(1,964,593)	(577)	(1,965,472)
(Increase) decrease in due from component units	-	62	-	-	(3,286)	(100)	(3,324)
(Increase) decrease in inventories	(351)	-	-	-	-	-	(351)
Increase (decrease) in accounts payable and accrued liabilities	(9,612)	(26,488)	(2,321)	(43)	1,574,763	2,618	1,538,917
Increase (decrease) in intergovernmental payables	(2)	(4,628)	1	-	(6,690)	-	(11,319)
Increase (decrease) in due to other funds	(1,306)	398	(437)	(19)	(3,017)	(6,965)	(11,346)
Increase (decrease) in due to component units	(22)	(157)	(12)	-	(374)	-	(565)
Increase (decrease) in unearned revenues	-	4,383	-	-	-	-	4,383
Increase (decrease) in other liabilities	(29)	(140)	90	(17,364)	(8)	-	(17,451)
Total adjustments	9,964	(15,679)	(11,223)	(24,097)	(403,636)	-	(444,671)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$ 17,053	$ 2,246	$ (5,724)	$ (24,389)	$ 206	$ (140)	$ (10,748)
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES							
Gain (loss) on sale of property and equipment	$ 23	$ -	$ -	$ -	$ -	$ -	$ 23
Transfer of capital assets, net of related debt, to/from other State funds	$ 35	$ 166	$ -	$ -	$ -	$ -	$ 201
Donated assets	$ -	$ -	$ -	$ -	$ -	$ -	$ -

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

June 30, 2017 (Expressed in Thousands)

	Teacher Health Insurance Security 0203	Community College Health Insurance Security 0577	State Employees' Deferred Compensation Plan 0755	Total
ASSETS				
Cash equity with State Treasurer	$ 40,571	$ 2,354	$ 3,698	$ 46,623
Cash and cash equivalents	10,835	1,115	47,338	59,288
Investments:				
Equities	-	-	3,491,057	3,491,057
Fixed income	-	-	166,539	166,539
Other	-	-	586,808	586,808
Intergovernmental receivables	1,443	126	-	1,569
Other receivables, net	14,510	628	760	15,898
Due from other State funds	109,703	4,309	-	114,012
Loans and note receivable, net	-	-	36,099	36,099
Securities lending collateral equity of State Treasurer	13,250	610	946	14,806
Total assets	190,312	9,142	4,333,245	4,532,699
LIABILITIES				
Accounts payable and accrued liabilities	221,726	59,321	864	281,911
Intergovernmental payables	-	-	2	2
Due to other Department funds	-	-	8	8
Due to other State fiduciary funds	1	-	10	11
Due to other State funds	301	27	47	375
Obligations under securities lending of State Treasurer	13,250	610	946	14,806
Current portion of long-term obligations	16	-	6	22
Noncurrent portion of long-term obligations	47	2	141	190
Total liabilities	235,341	59,960	2,024	297,325
NET POSITION				
Unrestricted net position	(45,029)	(50,818)	-	(95,847)
Restricted for pensions	-	-	4,331,221	4,331,221
Total net position	$ (45,029)	$ (50,818)	$ 4,331,221	$ 4,235,374

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

For the Year Ended June 30, 2017 (Expressed in Thousands)

	Teacher Health Insurance Security 0203	Community College Health Insurance Security 0577	State Employees' Deferred Compensation Plan 0755	Total
Deposits/Contributions:				
Employer	$ 100,763	$ 4,367	$ -	$ 105,130
State	109,703	4,309	-	114,012
Members/participants	111,734	4,367	162,376	278,477
Other contributions	2,099	185	7,286	9,570
Total contributions	324,299	13,228	169,662	507,189
Investment income:				
Interest, dividends and other investment income	357	24	31,648	32,029
Net increase in fair value of investments	-	-	451,490	451,490
Reimbursement of investment expenses not separable from investment income	-	-	2,168	2,168
Less: investment expense	-	-	(1,186)	(1,186)
Net investment income	357	24	484,120	484,501
Total additions	324,656	13,252	653,782	991,690
Deductions:				
Benefit payments	296,480	22,918	313,570	632,968
Refunds	-	-	65	65
Other Deductions	-	-	2,365	2,365
General and administration	13,790	2,886	2,632	19,308
Total deductions	310,270	25,804	318,632	654,706
Net increase (decrease) in net position	14,386	(12,552)	335,150	336,984
Net position, July 1, 2016, as restated	(59,415)	(38,266)	3,996,071	3,898,390
Net position, June 30, 2017	$ (45,029)	$ (50,818)	$ 4,331,221	$ 4,235,374

Combining Statement of Fiduciary Net Position
Agency Funds
June 30, 2017 (Expressed in Thousands)

	Flexible Spending Account 0202	Group Insurance Premium 0457	Total
ASSETS			
Cash equity with State Treasurer	$ 3,189	$ 8,474	$ 11,663
Cash and cash equivalents	4,612	-	4,612
Other receivables, net	-	7,430	7,430
Securities lending collateral equity of State Treasurer	-	1,938	1,938
Total assets	$ 7,801	$ 17,842	$ 25,643
LIABILITIES			
Accounts payable and accrued liabilities	$ 7,765	$ 15,904	$ 23,669
Due to State of Illinois component units	36	-	36
Obligations under securities lending of State Treasurer	-	1,938	1,938
Total liabilities	$ 7,801	$ 17,842	$ 25,643

Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2017 (Expressed in Thousands)

	Balance at July 1, 2016	Additions	Deletions	Balance at June 30, 2017
Flexible Spending Account Fund (0202):				
ASSETS				
Cash equity with State Treasurer	$ 6,506	$ 31,327	$ 34,644	$ 3,189
Cash and cash equivalents	1,288	30,241	26,917	4,612
Total assets	$ 7,794	$ 61,568	$ 61,561	$ 7,801
LIABILITIES				
Accounts payable and accrued liabilities	$ 7,764	$ 30,921	$ 30,920	$ 7,765
Due to State of Illinois component units	30	406	400	36
Total liabilities	$ 7,794	$ 31,327	$ 31,320	$ 7,801
Group Insurance Premium Fund (0457):				
ASSETS				
Cash equity with State Treasurer	$ 7,974	$ 59,700	$ 59,200	$ 8,474
Other receivables, net	-	7,430	-	7,430
Securities lending collateral equity of State Treasurer	2,508	147,206	147,776	1,938
Total assets	$ 10,482	$ 214,336	$ 206,976	$ 17,842
LIABILITIES				
Accounts payable and accrued liabilities	$ 7,974	$ 67,130	$ 59,200	$ 15,904
Obligations under securities lending of State Treasurer	2,508	147,206	147,776	1,938
Total liabilities	$ 10,482	$ 214,336	$ 206,976	$ 17,842
Total				
ASSETS				
Cash equity with State Treasurer	$ 14,480	$ 91,027	$ 93,844	$ 11,663
Cash and cash equivalents	1,288	30,241	26,917	4,612
Other receivables, net	-	7,430	-	7,430
Securities lending collateral equity of State Treasurer	2,508	147,206	147,776	1,938
Total assets	$ 18,276	$ 275,904	$ 268,537	$ 25,643
LIABILITIES				
Accounts payable and accrued liabilities	$ 15,738	$ 98,051	$ 90,120	$ 23,669
Due to State of Illinois component units	30	406	400	36
Obligations under securities lending of State Treasurer	2,508	147,206	147,776	1,938
Total liabilities	$ 18,276	$ 245,663	$ 238,296	$ 25,643

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

Honorable Frank J. Mautino
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, 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, 2017, and the related notes to the financial statements, which collectively comprise the State of Illinois, Department of Central Management Services' basic financial statements, and have issued our report thereon dated January 25, 2018.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings as item 2017-001, to be material weaknesses.

Compliance and Other Matters

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

Department of Central Management Services' Response to Findings

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

Purpose of this Report

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

SIGNED ORIGINAL ON FILE

Springfield, Illinois
January 25, 2018

SCHEDULE OF FINDINGS

CURRENT FINDINGS – *Government Auditing Standards*

2017-001 **FINDING** (Weaknesses in internal control over financial reporting)

The Department of Central Management Services' (the Department's) year-end financial reporting in accordance with Generally Accepted Accounting Principles (GAAP) to the Illinois Office of the State Comptroller contained errors in the determination of certain year-end account balances.

The Illinois Office of the State Comptroller (IOC) 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. GAAP Reporting Package instructions are specified in the Statewide Accounting Management System (SAMS) Manual, Chapter 27. Furthermore, the State Comptroller Act (Act) (15 ILCS 405/19.5) requires State agencies to report, on or before October 31 each year, all financial information as directed by the Comptroller in order to compile and publish a comprehensive annual financial report (CAFR) in accordance with GAAP. The Act permits the Comptroller to require certain State agencies to submit information before this date.

In accordance with the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001), management is responsible for establishing and maintaining a system, or systems, of internal fiscal and administrative controls, to provide assurance that, among other things, revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources. Management is also responsible for establishing a process for preparing reasonable accounting estimates.

During the audit of the June 30, 2017 financial statements, we noted the following errors resulting from the Department's failure to establish adequate internal control over the accumulation of information necessary for the proper reporting of financial information as follows:

- The Department understated accrued liabilities in the Health Insurance Reserve Fund (0907) by $11.849 million due to the exclusion of certain prescription drug benefit liabilities. This misstatement also resulted in an understatement of the amounts due to Fund 0907 from the General Revenue Fund (0001) and Road Fund (0011) of $11.263 million and $586 thousand, respectively. The Department revised the applicable financial statements for this error.

- The Department understated accrued liabilities in the Local Government Health Insurance Reserve Fund (0193) by $247 thousand due to the exclusion of certain prescription drug benefit liabilities. The Department revised the applicable financial statements for this error.

- The Department understated accrued liabilities in the Teacher Health Insurance Security Fund (0203) by $2.032 million due to the exclusion of certain prescription drug benefit liabilities. The Department revised the applicable financial statements for this error.

- The Department understated accrued liabilities in the Community College Health Insurance Security Fund (0577) by $199 thousand due to the exclusion of certain prescription drug benefit liabilities. The Department revised the applicable financial statements for this error.

- The Department overstated accrued liabilities in fund 0577 by $102 thousand due to the inclusion of an amount paid prior to fiscal year end. The Department deemed this error to be immaterial and did not revise the financial statements.

- In the prior fiscal year, the Department understated their accrued liabilities and benefit payments in fund 0577 by $8.853 due to a mathematical error when calculating the accrued liability. The Department restated its financial statements as of July 1, 2016 to correct for this error.

- The Department overstated accrued liabilities in the Facilities Management Revolving Fund (0314) by $1.822 million due to vendor reimbursements that occurred during the lapse period. The Department did not revise the applicable financial statements for this error as it was considered immaterial.

- The Department overstated accounts receivable in fund 0907 by $12.423 million due to including a deposit in transit in accounts receivable and cash. It should not have been included in accounts receivable. This misstatement also resulted in an understatement of the amounts due to Fund 0907 from the General Revenue Fund (0001) and Road Fund (0011) of $11.809 million and $614 thousand, respectively. The Department revised the applicable financial statements for this error.

- The Department overstated accounts receivable in fund 0193 by $296 thousand due to including a deposit in transit in accounts receivable and cash. It should not have been included in accounts receivable. The Department revised the applicable financial statements for this error.

- The Department overstated accounts receivable in fund 0203 by $1.898 million due to including a deposit in transit in accounts receivable and cash. It should not have been included in accounts receivable. The Department revised the applicable financial statements for this error.

- The Department overstated accounts receivable in fund 0577 by $215 thousand due to including a deposit in transit in accounts receivable and cash. It should not have been included in accounts receivable. The Department revised the applicable financial statements for this error.

- The Department overstated revenues and expenses in fund 0907 by $12.952 million due to a reclassification of the prior year cash on hand in both fiscal year 2016 and fiscal year 2017 from revenue to expense. Since the overstatements netted to $0, there is no effect on net position. Therefore, the Department elected to not revise the applicable financial statements for this error as it was considered qualitatively immaterial.

During the previous engagement, the Department stated they would continue to work toward more comprehensive cross-training among staff and will continue to work to improve communications from Bureau staff to Financial Reporting staff. Additionally, the Department would continue to update its financial reporting procedures to help ensure accurate and reliable financial information is prepared and submitted to the Office of the Comptroller. During the current engagement, the Department stated human error combined with staffing resources limiting independent review of financial transactions resulted in the deficiencies noted.

As a result of these deficiencies, the Department's GAAP reporting packages and financial statements were inaccurate and required corrections. (Finding Code No. 2017-001, 2016-001, 2015-001)

RECOMMENDATION

We recommend the Department implement procedures and cross-training measures throughout the Department to ensure required financial information is submitted to those responsible for financial reporting in a timely, accurate and complete manner. This should include allocating sufficient staff resources and the implementation of formal procedures to ensure accurate and reliable financial information is prepared and submitted to the Office of the State Comptroller. These procedures should address all elements of the Department's financial reporting process including, but not limited to, accruals for liabilities and receivables, supervisory review of supporting spreadsheets for data accumulation, and the preparation of management estimates.

DEPARTMENT RESPONSE

The Department agrees with the finding and recommendation. The Department will strive to implement cross-training measures and financial reporting procedures to ensure the timeliness, accuracy, reliability and reasonableness of data utilized to perform financial reporting. Additionally, the Department will continue to work diligently to fill key positions to ensure an independent, internal analytical review of calculations is documented and completed timely.

PRIOR YEAR FINDINGS NOT REPEATED

A. **FINDING** (Inadequate security and control over the midrange environment)

During the previous engagement, the Department of Central Management Services (Department) had not implemented adequate security and controls over the midrange environment. Since fiscal year 2007, the auditors had noted the Department had not implemented adequate security and controls over the midrange environment. Again in fiscal year 2016, the auditors noted the Department had not remediated the security and control issues, including not requiring passwords for powerful administrator accounts; permitting servers to run with unsupported operating systems or service pack versions, anti-virus software, and without being properly backed up; and accounts with deficient password length, change interval, and content requirements.

Executive Order 2016-01, created the Department of Innovation and Technology (DoIT). The responsibility to have effective security and control over the midrange environment was transferred to DoIT, effective, July 1, 2016. This issue will be followed up on in the DoIT Examination.