SIKICH

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

FINANCIAL AUDIT

For the Year Ended June 30, 2018

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

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STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
FINANCIAL AUDIT
For the Year Ended June 30, 2018

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AGENCY OFFICIALS

Director	Janel Forde, Acting (1/21/19 – present) Sarah Kerley, Acting (1/5/19 – 1/20/19) Tim McDevitt, Acting (3/3/18 – 1/4/19) Michael Hoffman, Acting (through 3/2/18)
Assistant Directors	Ben Jones, Acting (6/22/18– present) Sarah Kerley, Acting (2/1/18 – 1/4/19) Amiel Harper (8/1/17 – 6/15/18) Markus Veile (through 1/31/18)
Chief Administrative Officer	Vacant
Chief Operating Officer	Vacant (2/1/19 – Present) Ngozi Okorafor (8/1/18 – 1/31/19) Vacant (through 7/31/18)
Fiscal Officer	Mark Lewis (7/1/17 – present)
Legal Counsel	Vacant (1/1/19 – Present) Kathleen Abbott, Acting (7/2/18 – 12/31/18) Ryan Green (through 6/29/2018)
Chief Internal Auditor	Jack Rakers (5/16/18 – present) Jack Rakers, Acting (through 5/15/18)

Agency main offices are located at:

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

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 65-68 of this report as item:

2018-001 Weaknesses in internal control over financial reporting

EXIT CONFERENCE

The Department waived an exit conference. The responses to the recommendations were provided by Sarah Rynders, Audit Liaison, on February 6, 2019.

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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, 2018, 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, 2018, 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, 2018, 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 15 to the financial statements, net position was restated as of July 1, 2017 due to the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemeployment Benefits Other Than Pensions*, which requires the OPEB liability to be reported as a component of long-term obligations in accrual-basis financial statements. In addition, deferred outflows and inflows of resources related to changes in the net OPEB liability are required to be reported. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted a management's discussion and analysis, budgetary comparison information, pension-related supplementary information, and other postemployment benefits (OPEB) related supplementary information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by 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 Nonmajor Governmental Funds, 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 March 25, 2019 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
March 25, 2019

BASIC FINANCIAL STATEMENTS

State of Illinois
Department of Central Management Services

Statement of Net Position

June 30, 2018 (Expressed in Thousands)

	Governmental Activities	Business-Type Activities	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
Unexpended appropriations	$ 570,665	$ -	$ 570,665
Cash equity with State Treasurer	146,673	4,338	151,011
Cash and cash equivalents	161,355	3,024	164,379
Securities lending collateral equity of State Treasurer	42,088	905	42,993
Receivables, net:			
Intergovernmental	5,964	470	6,434
Other	27,930	419	28,349
Due from other Department funds	5	-	5
Due from other Department fiduciary funds	16	-	16
Due from other State funds	728,157	-	728,157
Due from other State fiduciary funds	1,792	-	1,792
Due from State of Illinois component units	13,892	-	13,892
Inventories	2,028	-	2,028
Capital assets not being depreciated	38,865	-	38,865
Capital assets being depreciated, net	145,030	-	145,030
Total assets	1,884,460	9,156	1,893,616
Deferred outflows of resources - pensions	107,682	-	107,682
Deferred outflows of resources - OPEB	39,411	-	39,411
Total assets and deferred outflows of resources	2,031,553	9,156	2,040,709
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES			
Accounts payable and accrued liabilities	2,371,306	8,088	2,379,394
Intergovernmental payables	5,126	2	5,128
Due to Department funds	-	5	5
Due to other State fiduciary funds	1,175	7	1,182
Due to other State funds	7,687	27	7,714
Due to State of Illinois component units	347	-	347
Obligations under securities lending of State Treasurer	42,088	905	42,993
Unearned revenue	7,933	36	7,969
Long term obligations:			
Due within one year	112,069	8	112,077
Due subsequent to one year	502,353	24	502,377
Net pension liability	266,805	-	266,805
Total OPEB liability	185,709	-	185,709
Total liabilities	3,502,598	9,102	3,511,700
Deferred inflows of resources - pensions	18,916	-	18,916
Deferred inflows of resources - OPEB	21,966	-	21,966
Total liabilities and deferred inflows of resources	3,543,480	9,102	3,552,582
NET POSITION			
Net investment in capital assets	183,895	-	183,895
Unrestricted	(1,695,822)	54	(1,695,768)
Total net position	$ (1,511,927)	$ 54	$ (1,511,873)

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, 2018 (Expressed in Thousands)

		Program Revenues		Net (Expense) Revenues and Changes in Net Position		
Functions/Programs	**Expenses**	**Charges for Services**	**Federal**	**Governmental Activities**	**Business-Type Activities**	**Total**
Primary government						
Governmental activities						
General government	$ 3,407,413	$ 3,031,076	$ 2,247	$ (374,090)		$ (374,090)
Education	902,653	-	-	(902,653)		(902,653)
Employment and economic development	32,116	-	-	(32,116)		(32,116)
Health and social services	367,494	-	-	(367,494)		(367,494)
Transportation	168,880	-	-	(168,880)		(168,880)
Public protection and justice	383,814	-	-	(383,814)		(383,814)
Environment and business regulation	69,359	-	-	(69,359)		(69,359)
Total governmental activities	5,331,729	3,031,076	2,247	(2,298,406)		(2,298,406)
Business type activities						
Insurance program	$ 46,840	$ 45,224			$ (1,616)	(1,616)
Total business-type activities	46,840	45,224			(1,616)	(1,616)
Total primary government	$ 5,378,569	$ 3,076,300				$ (2,300,022)
General revenues						
Appropriations from State Resources				2,101,010	-	2,101,010
Lapsed appropriations				(19,304)	-	(19,304)
Receipts collected and transmitted to State Treasury				(51)	-	(51)
Interest and investment income				5,237	90	5,327
Other revenues				8,905	28	8,933
Capital transfers to other State agencies				(2,226)	-	(2,226)
Loss on disposition of assets				(55)	-	(55)
Capital contributions				1,524	-	1,524
Transfers-in				3,982,000	-	3,982,000
Total general revenues and transfers				6,077,040	118	6,077,158
Change in net position				3,778,634	(1,498)	3,777,136
Net position, July 1, 2017, as restated				(5,290,561)	1,552	(5,289,009)
Net position, June 30, 2018				$ (1,511,927)	$ 54	$ (1,511,873)

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

Balance Sheet - Governmental Funds

June 30, 2018 (Expressed in Thousands)

	General Fund	Road Fund	Nonmajor Funds	Total Governmental Funds
ASSETS				
Unexpended appropriations	$ 570,665		$ -	$ 570,665
Cash equity with State Treasurer	-	-	1,829	1,829
Receivables, net:				
Other receivables	107	-	63	170
Due from other Department funds	10,536	-	-	10,536
Due from other State funds	-	-	11	11
Total assets	$ 581,308	$ -	$ 1,903	$ 583,211
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES				
Accounts payable and accrued liabilities	$ 3,186	$ -	$ 2,350	$ 5,536
Intergovernmental payables	26	-	-	26
Due to other Department funds	1,993,941	75,232	117	2,069,290
Due to other State funds	1,834	-	62	1,896
Matured portion of long-term obligations	118	-	-	118
Total liabilities	1,999,105	75,232	2,529	2,076,866
Deferred inflows of resources - unavailable revenue	96	-	-	96
Total liabilities and deferred inflows of resources	1,999,201	75,232	2,529	2,076,962
FUND BALANCES (DEFICITS)				
Committed - General government	-	-	1,694	1,694
Unassigned	(1,417,893)	(75,232)	(2,320)	(1,495,445)
Total fund balances (deficits)	(1,417,893)	(75,232)	(626)	(1,493,751)
Total liabilities, deferred inflows of resources and fund balances (deficits)	$ 581,308	$ -	$ 1,903	$ 583,211

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

State of Illinois
Department of Central Management Services
Reconciliation of Governmental Funds Balance Sheet
to Statement of Net Position
June 30, 2018
(Expressed in Thousands)

Total fund balances-governmental funds		$ (1,493,751)
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.		15,508
Revenues in the Statement of Activities that do not provide current financial resources are deferred in governmental funds.		96
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.		318,178
Deferred outflows of resources related to pensions.		107,682
Deferred inflows of resources related to pensions.		(18,916)
Deferred outflows of resources related to OPEB.		39,411
Deferred inflows of resources related to OPEB.		(21,966)
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	(438)	
Auto liability claims	(5,217)	
Total OPEB liability	(185,709)	
Net pension liability	(266,805)	
		(458,169)
Net position of governmental activities		$ (1,511,927)

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, 2018 (Expressed in Thousands)

	General Fund	Road Fund	Nonmajor Funds	Total Governmental Funds
REVENUES				
Other	$ 49	$ -	$ 2,112	$ 2,161
Federal operating revenues	-	-	2,247	2,247
Other charges for services	-	-	255	255
Total revenues	49	-	4,614	4,663
EXPENDITURES				
General government	181,685	-	3,182	184,867
Education	948,583	-	-	948,583
Employment and economic development	33,751	-	-	33,751
Health and social services	386,193	-	-	386,193
Transportation	33,370	161,661	-	195,031
Public protection and justice	403,344	-	-	403,344
Environment and business regulation	72,889	-	-	72,889
Capital outlays	576	-	2,791	3,367
Total expenditures	2,060,391	161,661	5,973	2,228,025
Excess (deficiency) of revenues over (under) expenditures	(2,060,342)	(161,661)	(1,359)	(2,223,362)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES				
Appropriations from State resources	1,976,018	124,992	-	2,101,010
Lapsed appropriations	(19,304)	-	-	(19,304)
Receipts collected and transmitted to State Treasury	(51)	-	-	(51)
Transfers-in	3,982,000	-	-	3,982,000
Net other sources (uses) of financial resources	5,938,663	124,992	-	6,063,655
Net change in fund balances	3,878,321	(36,669)	(1,359)	3,840,293
Fund balances (deficits), July 1, 2017	(5,296,214)	(38,563)	733	(5,334,044)
Fund Balances (Deficits), June 30, 2018	$ (1,417,893)	$ (75,232)	$ (626)	$ (1,493,751)

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, 2018
(Expressed in Thousands)

Net change in fund balances	$ 3,840,293
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.	2,320
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.	(2,226)
Gains and losses from capital assets no longer in use are not recorded in governmental funds but are reported as other revenues and expenses in the Statement of Activities. In the current year, these transactions include losses on capital assets scrapped, damaged, or stolen.	(55)
Internal service funds are used to charge the costs of certain activities to individual funds. The change in net position of the internal service funds is reported as governmental activities in the Statement of Activities.	(4,629)
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.	(73)
Pensions:	
Change in deferred outflows of resources.	(5,581)
Change in deferred inflows of resources.	(8,089)
OPEB:	
Change in deferred outflows of resources.	39,072
Change in deferred inflows of resources.	(21,966)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. Below are such activities.	
Decrease in compensated absences obligation	1,021
Decrease in auto liability claims	1,503
Increase in net other postemployment benefit obligations	(32,856)
Increase in net pension liability	(30,100)
Change in net position of governmental activities	$ 3,778,634

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

Statement of Net Position - Proprietary Funds

June 30, 2018 (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	$ 144,844	$ 4,338
Cash and cash equivalents	161,355	3,024
Securities lending collateral equity of State Treasurer	42,088	905
Receivables, net:		
Intergovernmental	5,964	470
Other	27,760	419
Due from other Department fiduciary funds	16	-
Due from other State fiduciary funds	1,792	-
Due from other Department funds	2,070,557	-
Due from other State funds	728,146	-
Due from State of Illinois component units	13,892	-
Inventories	2,028	-
Total current assets	3,198,442	9,156
Capital assets not being depreciated	38,336	-
Capital assets being depreciated, net	130,051	-
Total noncurrent assets	168,387	-
Total assets	3,366,829	9,156
LIABILITIES		
Accounts payable and accrued liabilities	2,365,770	8,088
Intergovernmental payables	5,100	2
Due to other State fiduciary funds	1,175	7
Due to other Department funds	11,798	5
Due to other State funds	5,791	27
Due to State of Illinois component units	347	-
Obligations under securities lending of State Treasurer	42,088	905
Unearned Revenue	7,933	36
Current portion of long-term obligations	110,362	8
Total current liabilities	2,550,364	9,078
Noncurrent portion of long-term obligations	498,287	24
Total liabilities	3,048,651	9,102
NET POSITION		
Net investment in capital assets	168,387	-
Unrestricted	149,791	54
Total net position	$ 318,178	$ 54

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

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

For the Year Ended June 30, 2018 (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	$ 3,258,469	$ 45,224
Other	120	-
Total operating revenues	3,258,589	45,224
OPERATING EXPENSES		
Cost of sales and services	263,296	-
Claims and judgments	2,468,366	-
Benefit payments and refund	-	45,919
General and administrative	82,345	921
Depreciation	21,296	-
Other	24	-
Total operating expenses	2,835,327	46,840
Operating income (loss)	423,262	(1,616)
NONOPERATING REVENUES (EXPENSES)		
Interest and investment income	5,237	100
Interest expense	(441,265)	(10)
Other revenue	6,624	28
Other expense	(11)	-
Income (loss) before contributions	(6,153)	(1,498)
Contributions of capital assets	1,524	-
Change in net position	(4,629)	(1,498)
Net position, July 1, 2017	322,807	1,552
Net position, June 30, 2018	$ 318,178	$ 54

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, 2018 (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	$ 135,883	$ 45,838
Cash received from transactions with other funds	6,367,839	-
Cash payments to suppliers for goods and services	(5,863,076)	(48,708)
Cash payments to employees for services	(54,188)	(546)
Cash receipts from other operating activities	57,416	1,340
Cash payments for other operating activities	(103,337)	-
Net cash provided (used) by operating activities	540,537	(2,076)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Interest paid on revenue bonds and other borrowings	-	(10)
Grants received	5,346	35
Other noncapital financing activities	(485,498)	-
Net cash provided (used) by noncapital financing activities	(480,152)	25
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(7,891)	-
Principal paid on capital debt	(4,225)	-
Interest paid on capital debt	(6)	-
Net cash (used) by capital and related financing activities	(12,122)	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends on investments	5,191	102
Net cash provided (used) by investing activities	5,191	102
Net increase (decrease) in cash and cash equivalents	53,454	(1,949)
Cash and cash equivalents, July 1, 2017	252,745	9,311
CASH AND CASH EQUIVALENTS, JUNE 30, 2018	306,199	7,362
Reconciliation of cash and cash equivalents to the statement of net assets:		
Total cash and cash equivalents per the statement of net assets	161,355	3,024
Add: cash equity with State Treasurer	144,844	4,338
CASH AND CASH EQUIVALENTS, JUNE 30, 2018	306,199	7,362
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
OPERATING INCOME (LOSS)	423,262	(1,616)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	21,296	-
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(13,881)	(101)
(Increase) decrease in intergovernmental receivables	(60)	457
(Increase) decrease in due from other funds	3,252,993	-
(Increase) decrease in due from State of Illinois component units	(3,392)	-
(Increase) decrease in inventory	3	-
Increase (decrease) in accounts payable and accrued liabilities	(3,146,538)	(859)
Increase (decrease) in intergovernmental payables	593	2
Increase (decrease) in due to other State funds	13,461	17
Increase (decrease) in due to State of Illinois component units	(38)	-
Increase (decrease) in unearned revenues	3,550	11
Increase (decrease) in other liabilities	(10,712)	13
Total adjustments	117,275	(460)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$ 540,537	$ (2,076)
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Loss on sale of equipment	$ (11)	$ -
Transfer of capital assets, net of related debt, to/from other State funds	$ 1,524	$ -
Change in fair market value of investments	$ (537)	$ -

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

State of Illinois

Department of Central Management Services

Statement of Fiduciary Net Position

Pension (and Other Employee Benefit) Trust Funds

June 30, 2018 (Expressed in Thousands)

	Pension (and Other Employee Benefit) Trust Funds	Agency Funds
ASSETS		
Cash equity with State Treasurer	$ 49,649	$ 15,794
Cash and cash equivalents	74,793	4,908
Investments:		
Equities	3,784,468	-
Debt mutual funds	114,319	-
Other	583,962	-
Intergovernmental receivables	1,618	-
Other receivables, net	16,291	-
Due from other State funds	182,111	-
Loans and note receivable, net	40,551	-
Securities lending collateral equity of State Treasurer	20,624	3,975
Total assets	4,868,386	24,677
LIABILITIES		
Accounts payable and accrued liabilities	342,395	20,622
Intergovernmental payables	4	-
Due to other Department funds	16	-
Due to other State fiduciary funds	26	-
Due to other State funds	9,698	-
Due to State of Illinois component units	-	80
Obligations under securities lending of State Treasurer	20,624	3,975
Current portion of long-term obligations	22	-
Noncurrent portion of long-term obligations	183	-
Total liabilities	372,968	$ 24,677
NET POSITION		
Unrestricted net position	(83,027)	
Restricted for pensions	4,578,445	
Total net position	$ 4,495,418	

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, 2018 (Expressed in Thousands)

	Pension (and Other Employee Benefit) Trust Funds
Deposits/Contributions:	
Employer	$ 93,459
State	123,935
Members/participants	284,035
Other contributions	8,420
Total contributions	509,849
Investment income:	
Interest, dividends and other investment income	20,128
Net decrease in fair value of investments	333,896
Reimbursement of investment expenses not separable from investment income	3,002
Less: investment expense	(479)
Net investment income	356,547
Total additions	866,396
Deductions:	
Benefit payments	567,217
Refunds	47
Other Deductions	3,366
General and administration	20,550
Total deductions	591,180
Net increase in net position	275,216
Net position, July 1, 2017, as restated	4,220,202
Net position, June 30, 2018	$ 4,495,418

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, 2018, 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 note 2(d):

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

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

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

<u>Unexpended Appropriations</u>

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

<u>Appropriations from State Resources</u>

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

(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 2018, the lapse period was extended through October.

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. Eliminations have also been made in the government-wide statement of activities to remove the “doubling-up” effect on revenues and expenses of Department internal service fund activity.

(f) Cash and Cash Equivalents

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

(g) Inventories

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

(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.

(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

(2) Summary of Significant Accounting Policies (continued)

(i) Capital Assets (continued)

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

(j) Compensated Absences

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

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

(k) Pensions

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

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

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

(2) Summary of Significant Accounting Policies (continued)

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

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

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

(m) Deferred Outflows/Inflows of Resources

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

(n) Fund Balances

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

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

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

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

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

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

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

(2) Summary of Significant Accounting Policies (continued)

(o) Net Position

In the government-wide and proprietary fund financial statements, equity is displayed in two 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.

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

(p) Use of Estimates

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

(q) State Employees’ Deferred Compensation Plan Administration

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

(r) Health Benefits Claim Processing

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

(2) Summary of Significant Accounting Policies (continued)

(s) New Accounting Pronouncements

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

Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, which replaces the requirements of Statement No. 45 and requires governments to report a liability on the face of the financial statements for the Other Postemployment Benefits (OPEB) they provide. In addition, this statement requires governments participating in all types of OPEB plans to present more extensive note disclosures and 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. The implementation of this statement significantly impacted the Department's government-wide financial statements and footnote disclosure with the recognition of a Total OPEB liability, deferred outflows of resources and deferred inflows of resources on the Statement of Net Position and OPEB expense on the Statement of Activities. Additionally, the requirements of this statement resulted in the restatement of beginning net position as discussed in Note 15. Information regarding participation in the State Employees Group Insurance Program is disclosed in Note 9.

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. The implementation of this statement had no financial impact on the Department's net position or results of operations.

Statement No. 85, Omnibus 2017, which addresses practice issues 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. The provisions related to postemployment benefits of this statement were incorporated with the implementation of GASB Statement 75.

Statement No. 86, *Certain Debt Extinguishment Issues*, which improves 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. The implementation of this statement had no financial impact on the Department's net position or results of operations.

(2) Summary of Significant Accounting Policies (continued)

(t) Future Adoption of GASB Statements

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

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

Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements, which is intended to improve the information that is disclosed in notes to governmental financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should be including when disclosing information related to debt.

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

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

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

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

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

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

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

(3) Deposits and Investments

(a) Deposits

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

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

(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.

(3) Deposits and Investments (continued)

(b) Investments (continued)

As of June 30, 2018 the Department had the following fixed income investments outside of the State Treasury.

	Book Value (Thousands)	Fair Value (Thousands)	Weighted Average Maturity (Years)
Governmental activities:			
Public Treasurer's Investment Pool	$ 161,355	$ 161,355	0.152
Total fixed income investments	$ 161,355	$ 161,355	
Fiduciary funds:			
Money market mutual funds	$ 52,382	$ 52,382	0.104
Debt mutual funds	114,319	114,319	8.500
Public Treasurer's Investment Pool	27,319	27,319	0.152
Total fixed income investments	$ 194,020	$ 194,020	
Business-type activities:			
Public Treasurer's Investment Pool	$ 3,024	$ 3,024	0.152
Total fixed income investments	$ 3,024	$ 3,024	

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

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

(3) Deposits and Investments (continued)

(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)	$ -	$ 161,355
Cash equivalents	161,355	(161,355)
Amounts per Statement of Net Position	$ 161,355	$ -
Fiduciary funds		
Amounts Per Note 3(a) & (b)	$ -	$ 194,020
Cash equivalents	79,701	(79,701)
Blended trust funds	-	2,572,638
Equity trust funds	-	1,211,830
Guaranteed investment contracts	-	583,962
Amounts per Statement of Fiduciary Net Position	$ 79,701	$ 4,482,749
Business-type activities		
Amounts Per Note 3(b)	$ -	$ 3,024
Cash equivalents	3,024	(3,024)
Amounts per Statement of Net Position	$ 3,024	$ -

(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	$ 52,382	$ 52,382	$ -	$ -
Debt mutual funds	114,319	114,319	-	-
Blended trust funds	2,572,638	2,572,638	-	-
Equity trust funds	1,211,830	1,211,830	-	-
Guaranteed investment contracts	583,962	583,962	-	-
Total	$ 4,535,131	$ 4,535,131	$ -	$ -

(3) Deposits and Investments (continued)

(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 2018 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 2018 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 2018 resulting from a default of the borrowers or Deutsche Bank AG.

During fiscal year 2018, the State Treasurer and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in repurchase agreements with approved counterparties collateralized with securities approved by Deutsche Bank AG and marked to market daily at no less than 102%. Because the loans are terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The State Treasurer had no credit risk as a result of its securities lending program as the collateral held exceeded the fair value of the securities lent. The securities lending collateral received that was invested in repurchase agreements and the fair value of securities on loan for the State Treasurer as of June 30, 2018 were $4,521,091,000 and $4,451,198,793, respectively.

In accordance with GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, paragraph 9, the Office of the State Treasurer has allocated the assets and obligations at June 30, 2018 arising from securities lending agreements to the various funds of the State. The total allocated to the Department at June 30, 2018 was $67.592 million.

(4) Inter-fund Balances and Activity

(a) Balances Due to/from Other Funds

The following balances (amounts expressed in thousands) at June 30, 2018 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**
General	$ 10,536	$ -	$ -	$ -	Due from other Department funds for internal service fund services provided including healthcare claims.
Non-major governmental	-	-	11	-	Due from other State funds for sales of federal surplus property.
Internal service	2,070,557	16	728,146	1,792	Due from other Department funds, other Department fiduciary funds and other State funds for services provided.
Fiduciary	-	-	182,111	-	Due from other State funds for insurance benefits
	$ 2,081,093	$ 16	$ 910,268	$ 1,792	

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

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

The following balances (amounts expressed in thousands) at June 30, 2018 represent amounts due to other Department and State of Illinois funds.

Fund	Due to: Other Department Funds	Due to: Other State Funds	Due to: Other State Fiduciary Funds	Description/Purpose
General	$ 1,993,941	$ 1,834	$ -	Due to other Department funds for internal service fund services received including healthcare claims and other State funds for services received.
Road	75,232	-	-	Due to other Department internal service funds for payment of healthcare claims.
Non-major governmental	117	62	-	Due to other Department funds for internal service fund services received, other State funds for services received.
Internal service	11,798	5,791	1,175	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	16	9,698	26	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	5	27	7	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.
	$ 2,081,109	$ 17,412	$ 1,208	

(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, 2018 were as follows:

Fund	Transfers-in from Other State Funds	Description/Purpose
General	$ 3,982,000	Bond Issue Proceeds

(5) Capital Assets

Capital asset activity (amounts expressed in thousands) for the year ended June 30, 2018 was as follows:

	Balance June 30, 2017	Additions	Deletions	Net Transfers	Balance June 30, 2018
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	-	-	58	158
Internally generated intangible assets in	-	2,320	-	(2,320)	-
Total capital assets not being depreciated	38,807	2,320	-	(2,262)	38,865
Capital assets being depreciated:					
Site improvements	3,761	-	-	-	3,761
Buildings and building improvements	687,136	809	-	1,419	689,364
Equipment	36,037	7,153	1,099	1,361	43,452
Depreciable historical treasures and works of art	970	-	-	-	970
Total capital assets being depreciated	727,904	7,962	1,099	2,780	737,547
Less accumulated depreciation:					
Site improvements	3,704	33	-	-	3,737
Buildings and building improvements	537,374	13,060	-	-	550,434
Equipment	27,939	9,250	1,033	1,220	37,376
Depreciable historical treasures and works of art	970	-	-	-	970
Total accumulated depreciation	569,987	22,343	1,033	1,220	592,517
Total capital assets being depreciated, net	157,917	(14,381)	66	1,560	145,030
Governmental activity capital assets, net	$ 196,724	$ (12,061)	$ 66	$ (702)	$ 183,895

Depreciation expense for governmental activities (amounts expressed in thousands) for the year ended June 30, 2018 was charged to functions as follows:

Governmental activities – General Government	$ 22,343

The carrying amount of idled, impaired capital assets, included above as capital assets being depreciated at June 30, 2018, 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

Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2018 were as follows:

	Balance June 30, 2017, as restated	Additions	Deletions	Balance June 30, 2018	Amounts Due Within One Year
Governmental activities:					
Compensated absences	$ 5,964	$ 6,518	$ 6,888	$ 5,594	$ 868
Certificates of participation	4,225	-	4,225	-	-
Workers' compensation claim obligations	614,856	101,190	112,553	603,493	109,723
Auto liability claim obligations	6,908	(142)	1,431	5,335	1,478
Total OPEB liability	152,853	32,856	-	185,709	-
Net pension liability	236,705	30,100	-	266,805	-
Total governmental activities	$ 1,021,511	$ 170,522	$ 125,097	$ 1,066,936	$ 112,069
Business-type activities:					
Compensated absences	$ 19	$ 44	$ 31	$ 32	$ 8
Total business-type activities	$ 19	$ 44	$ 31	$ 32	$ 8
Fiduciary funds:					
Compensated absences	$ 212	$ 150	$ 157	$ 205	$ 22
Total fiduciary funds	$ 212	$ 150	$ 157	$ 205	$ 22

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

(7) Risk Management

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

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

The Department's risk financing of auto liability for the State's non-Department of Transportation liability, $5.335 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 $0.118 million. The remaining portion of the liability, $5.217 million, as of June 30, 2018, is included in the Department-wide financial statements and is expected to be paid from future resources of the General Fund.

(7) Risk Management (continued)

The Department's workers' compensation liability, $603.493 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 $649.209 million. Payments to the Health Insurance Reserve Fund are based on estimates of amounts needed to pay prior year unprocessed and current year claims.

The following is a reconciliation of the Department's claims liabilities for the years June 30, 2017 and June 30, 2018 (amounts expressed in thousands):

	Changes in Claims Liability Balances			
Year Ended June 30	**Beginning Balance**	**Current Year Claims and Changes in Estimates**	**Claim Payments**	**Ending Balance**
Primary Government-Governmental Activities:				
2017				
Auto Liability	$ 7,373	$ 2,221	$ 2,686	$ 6,908
Workers' Compensation	632,233	74,856	92,233	614,856
Active employee health claims				-
for self-insured plans	1,065,640	876,912	392,908	1,549,644
Total:	$ 1,705,246	$ 953,989	$ 487,827	$ 2,171,408
2018				
Auto Liability	$ 6,908	$ (142)	$ 1,431	$ 5,335
Workers' Compensation	614,856	101,190	112,553	603,493
Active employee health claims				
for self-insured plans	1,549,644	1,030,056	1,930,491	649,209
Total:	$ 2,171,408	$ 1,131,104	$ 2,044,475	$ 1,258,037

(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, PO Box 19255, Springfield, Illinois, 62794-9255.

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

(8) Pension (continued)

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

Regular Formula Tier 1	Regular Formula Tier 2
A member must have a minimum of eight years of service credit and may retire at:	A member must have a minimum of 10 years of credited service 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 8 years of credited service. • Between ages 55-60 with 25-30 years of service credit (reduced 1/2 of 1% for each month under age 60).	• 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. Final average compensation is the 48 highest consecutive months of service within the last 120 months of service.	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.
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 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 2017 rate is $112,408.
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.	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.

(8) Pension (continued)

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

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

Contributions. Contribution requirements of active employees and the State are established in accordance with Chapter 40, section 5/14-133 of the Illinois Compiled Statutes. Member contributions are based on fixed percentages of covered payroll ranging between 4.00% and 12.50%. Employee contributions are fully refundable, without interest, upon withdrawal from State employment. Tier 1 members contribute based on total annual compensation. Tier 2 members contribute based on an annual compensation rate not to exceed $106,800 with limitations for future years increased by the lesser of 3% or one-half of the annual percentage increase in the Consumer Price Index. For 2018, this amount was $113,645.

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 2018, 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 2018, the employer contribution rate was 47.342%. The Department's contribution amount for fiscal year 2018 was $.938 million. In addition, the Department recorded $13.291 million of revenue and expenditures in the General Revenue account of the General Fund to account for on-behalf payments to SERS for Department employees.

Pension liability, deferred outflows of resources, deferred inflows of resources and expense related to pensions. At June 30, 2018, the Department reported a liability of $266.805 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, 2017 (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, 2017. As of the current year measurement date of June 30, 2017, the Department's proportion was 0.8108%, which was an increase of 16.96% from its proportion measured as of the prior year measurement date of June 30, 2016.

(8) Pension (continued)

For the year ended June 30, 2018, the Department recognized pension expense of $58.000 million. At June 30, 2018, the Department reported deferred outflows and deferred inflows of resources related to the pension liability, as of the measurement date of June 30, 2017, from the following sources (amounts expressed in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 157	$ 8,451
Changes of assumptions	27,518	5,562
Net difference between projected and actual investment earnings on pension plan investments	233	-
Changes in proportion	78,836	4,903
Department contributions subsequent to the measurement date	938	
Total	**$ 107,682**	**$ 18,916**

$.938 million reported as deferred outflows of resources related to pensions resulting from Department contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows (amounts expressed in thousands):

2019	$ 33,162
2020	32,044
2021	21,630
2022	992
Total	**$ 87,828**

Actuarial methods and assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

Mortality: 105 percent of the RP 2014 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 lesser 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 is determined using the best estimates of geometric real rates of return for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. For each major asset class that is included in the pension plan's target asset allocation, calculated as of the measurement date of June 30, 2017, the best estimates of geometric real rates of return are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rates of Return
U.S. Equity	23%	5.50%
Developed Foreign Equity	13%	5.30%
Emerging Market Equity	8%	7.80%
Private Equity	7%	7.60%
Intermediate Investment Grade Bonds	14%	1.50%
Long-Term Government Bonds	4%	1.80%
TIPS	4%	1.50%
High Yield and Bank Loans	5%	3.80%
Opportunistic Debt	8%	5.00%
Emerging Market Debt	2%	3.70%
Core Real Estate	5.5%	3.70%
Non-core Real Estate	4.5%	5.90%
Infrastructure	2%	5.80%
Total	100%	

Discount rate. A discount rate of 6.78% was used to measure the total pension liability as of the measurement date of June 30, 2017 as compared to a discount rate of 6.64% used to measure the total pension liability as of the prior year measurement date. The June 30, 2017 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 3.56%, based on an index of 20 year general obligation bonds with an average AA credit rating as published by the Federal Reserve. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that contributions will be made based on the statutorily required rates under Illinois law. Based on these assumptions, the pension plan's fiduciary net position and future contributions will be sufficient to finance the benefit payments through the year 2073. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2073, and the municipal bond rate was applied to all benefit payments after that date.

(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 5.78%	Discount Rate 6.78%	1% Increase 7.78%
Agency's proportionate share of the net pension liability	$322,840	$266,805	$220,946

Payables to the pension plan. At June 30, 2018, the Department reported a payable of $1.532 million to SERS for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2018.

(9) Other Post-Employment Benefits

***Plan description*.** The State Employees Group Insurance Act of 1971 ("Act"), as amended, authorizes the Illinois State Employees Group Insurance Program ("SEGIP") to provide health, dental, vision, and life insurance benefits for certain retirees and their dependents. Substantially all of the Department's full-time employees are members of SEGIP. Members receiving monthly benefits from the State Employees' Retirement System of Illinois ("SERS"). The eligibility provisions for each of the retirement systems are defined within Note 8.

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

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

***Funding policy and annual other postemployment benefit cost*.** OPEB offered through SEGIP are financed through a combination of retiree premiums, State contributions and Federal government subsidies from the Medicare Part D program. Contributions are deposited in the Health Insurance Reserve Fund, which covers both active State employees and retirement members. Annuitants may be required to contribute towards health and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the State Employee's

(9) Other Post-Employment Benefits (continued)

Retirement System do not contribute toward health and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health and vision benefits. All annuitants are required to pay for dental benefits regardless of retirement date. The Director of Central Management Services shall, on an annual basis, determine the amount the State shall contribute toward the basic program of group health benefits. State contributions are made primarily from the General Revenue Fund on a pay-as-you-go basis. No assets are accumulated or dedicated to funding the retiree health insurance benefit and a separate trust has not been established for the funding of OPEB.

For fiscal year 2018, the annual cost of the basic program of group health, dental, and vision benefits before the State's contribution was $10,926.24 ($6,145.92 if Medicare eligible) if the annuitant chose benefits provided by a health maintenance organization and $14,939.04 ($5,165.04 if Medicare eligible) if the annuitant chose other benefits. The State is not required to fund the plan other than the pay-as-you-go amount necessary to provide the current benefits to retirees.

***Total OPEB liability, deferred outflows of resources, deferred inflows of resources and expense related to OPEB*.** The total OPEB liability, as reported at June 30, 2018, was measured as of June 30, 2017, with an actuarial valuation as of June 30, 2016. At June 30, 2018, the Department recorded a liability of $185.709 million for its proportionate share of the State's total OPEB liability. The Department's portion of the OPEB liability was based on the Department's proportion of employer contributions relative to all employer contributions made to the plan during the year ended June 30, 2017. As of the current year measurement date of June 30, 2017, the Department's proportion was 0.4494%, which was an increase of 27.89% from its proportion measured as of the prior year measurement date of June 30, 2016.

(9) Other-Post Employment Benefits (continued)

The Department recognized OPEB expense for the year ended June 30, 2018, of $17.135 million. At June 30, 2018, the Department reported deferred outflows and deferred inflows of resources, as of the measurement date of June 30, 2017, from the following sources (amounts expressed in thousands):

Deferred outflows of resources	
Differences between expected and actual experience	$ 60
Changes in proportion and differences between employer contributions and proportionate share of contributions	39,140
Department contributions subsequent to the measurement date	211
Total deferred outflows of resources	$ 39,411
Deferred inflows of resources	
Changes of assumptions	$ 17,633
Changes in proportion and differences between employer contributions and proportionate share of contributions	4,333
Total deferred inflows of resources	$ 21,966

The amounts reported as deferred outflows of resources related to OPEB resulting from Department contributions subsequent to the measurement date will be recognized as a reduction to the OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (amounts expressed in thousands):

Year ended June 30,	
2019	$ 3,874
2020	3,874
2021	3,874
2022	3,874
2023	1,738
Total	$ 17,234

(9) Other-Post Employment Benefits (continued)

***Actuarial methods and assumptions*.** The total OPEB liability was determined by an actuarial valuation using the following actuarial assumptions, applied to all periods included in the measurement unless otherwise specified. The actuarial valuation for the SEGIP was based on GARS, JRS, SERS, TRS, and SURS active, inactive, and retiree data as of June 30, 2016, for eligible SEGIP employees, and SEGIP retiree data as of June 30, 2016.

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry Age Normal
Inflation Rate	2.75%
Projected Salary Increases*	3.00% - 15.00%
Discount Rate	3.56%
Healthcare Cost Trend Rate:	
Medical (Pre-Medicare)	8.0 % grading down 0.5% in the first year to 7.5%, then grading down 0.01% in the second year to 7.49%, followed by grading down of 0.5% per year over 5 years to 4.99% in year 7
Medical (Post-Medicare)	9.0% grading down 0.5% per year over 9 years to 4.5%
Dental	7.5% grading down 0.5% per year over 6 years to 4.5%
Vision	3.00%
Retirees' share of benefit-related costs	Healthcare premium rates for members depend on the date of retirement and the years of service earned at retirement. Members who retired before January 1, 1998, are eligible for single coverage at no cost to the member. Members who retire after January 1, 1998, are eligible for single coverage provided they pay a portion of the premium equal to 5 percent for each year of service under 20 years. Eligible dependents receive coverage provided they pay 100 percent of the required dependent premium. Premiums for plan year 2017 and 2018 are based on actual premiums. Premiums after 2018 were projected based on the same healthcare cost trend rates applied to per capita claim costs but excluding the additional trend rate that estimates the impact of the Excise Tax.

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

(9) Other Post-Employment Benefits (continued)

Additionally, the demographic assumptions used in the OPEB valuation are identical to those used in the June 30, 2016 valuations for GARS, JRS, SERS, TRS, and SURS as follows:

	Retirement age experience study^	Mortality^^
GARS	July 2012 - June 2015	RP-2014 White Collar Total Healthy Annuitant mortality table, sex distinct, set forward 1 year for males and set back 1 year for females and generational mortality improvements using MP-2014 two-dimensional mortality improvement scales
JRS	July 2012 - June 2015	RP-2014 White Collar Total Healthy Annuitant mortality table, sex distinct, set forward 1 year for males and set back 1 year for females and generational mortality improvements using MP-2014 two-dimensional mortality improvement scales
SERS	July 2009 - June 2013	105 percent of the RP 2014 Healthy Annuitant mortality table, sex distinct, with rates projected to 2015; generational mortality improvement factors were added
TRS	July 2011 - June 2014	RP-2014 with future mortality improvements on a fully generational basis using projection table MP-2014
SURS	July 2010 - June 2014	RP-2014 White Collar, gender distinct, projected using MP-2014 two dimensional mortality improvement scale, set forward one year for male and female annuitants

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

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

Discount rate. Retirees contribute a percentage of the premium rate based on service at retirement. The State contributes additional amounts to cover claims and expenses in excess of retiree contributions. Because plan benefits are financed on a pay-as-you-go basis, the single discount rate is based on a tax-exempt municipal bond rate index of 20-year general obligation bonds with an average AA credit rating as of the measurement date. A single discount rate of 2.85% at June 30, 2016, and 3.56% at June 30, 2017, was used to measure the total OPEB liability.

Sensitivity of total OPEB liability to changes in the single discount rate. The following presents the plan's total OPEB liability, calculated using a Single Discount Rate of 3.56%, as well as what the plan's total OPEB liability would be if it were calculated using a Single Discount rate that is one percentage point higher (4.56%) or lower (2.56%) than the current rate (amounts expressed in thousands):

	1% Decrease (2.56%)	Current Single Discount Assumption (3.56%)	1% Increase (4.56%)
Department's proportionate share of total OPEB liability	$210,686	$185,709	$160,873

(9) Other Post Employment Benefits (continued)

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rate. The following presents the plans total OPEB liability, calculated using the healthcare cost trend rates as well as what the plan's total OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point higher or lower, than the current healthcare cost trend rates (amounts in table expressed in thousands). The key trend rates are 8.0% in 2018 decreasing to an ultimate trend rate of 4.99% in 2025, for non-Medicare coverage, and 9.0% decreasing to an ultimate trend rate of 4.5% in 2027 for Medicare coverage.

	1% Decrease	Current Healthcare Cost Trend Rates Assumption	1% Increase
Department's proportionate share of total OPEB liability	$158,687	$185,709	$208,018

(10) Commitments and Contingencies

(a) Operating leases

The Department leases parking lots, warehouses, and buildings, under the terms of non-cancelable operating lease agreements that require the Department to make minimum lease payments plus pay a pro rata share of certain operating costs. Rent expense under operating leases was $79.671 million for the year ended June 30, 2018.

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

Year Ending June 30	Total
2019	$ 74,684
2020	51,245
2021	38,395
2022	17,218
2023	6,360
	$ 187,902

(b) Ordered Equipment

The Department ordered $8.1 million of vehicles prior to June 30, 2018. The State Garage Revolving Fund (Fund 0303) will record an expense for the vehicles when received by the Department.

(c) Litigation

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

(11) Local Government Health Insurance Fund Risk Pool Disclosure

The Local Government Health Insurance Reserve Fund (LGHIRF) was established to provide health and dental insurance to participating local governments entities. Financial statements for the LGHIRF may be obtained from the Department. As of June 30, 2018, there were 264 local governmental entities participating with approximately 2,750 employees, 2,946 dependents and 196 retirees covered. Each participating local governmental unit is required to enter into written agreement with the Department. The agreement sets forth the responsibilities of both parties. The

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

The responsibilities required of the Department are:

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

The responsibilities required of the local government units are:

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

The LGHIRF had previously contracted with third-party reinsurers for reinsurance coverage. However, no such coverage was in place for the year ended June 30, 2018.

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, 2018, 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, 2018 is as follows:

Claims incurred and reported but not paid as of June 30	$ 4,847
Estimated liability for claims incurred but not reported	2,903
Total estimated liability for future claims	$ 7,750

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

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

	2017	2018
Payments made for benefit claims	$40,399	$46,493
Less: liability for unpaid claims, beginning of year	6,118	8,324
Subtotal	34,281	38,169
Add: liability for unpaid claims, end of year	8,324	7,750
Total benefit claim payments and refunds	$42,605	$45,919

(12) Other Post-Employment Benefit Plans

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

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

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

(a) Teacher Retirement Insurance Plan (TRIP)

The TRIP is accounted for in the Teacher Health Insurance Security Fund which was established to provide health insurance for the Illinois Teachers' Retirement System (TRS) annuitants and dependent beneficiaries. As of June 30, 2018 there were 978 school districts participating with approximately 258,014 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 1.18 percent contribution from active teachers and 0.88 percent contributions from school districts for program funding purposes

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

(b) Community College Insurance Plan (CCIP)

The CCIP is accounted for in the Community College Health Insurance Security Fund which was established to provide health and dental insurance for the Illinois community college retirees and dependent beneficiaries. As of June 30, 2018, there were 38 community colleges and 1 community college association participating with approximately 32,413 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 2018 are included in the State's Comprehensive Annual Financial Report for the year ended June 30, 2018. 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 $18,500 ($24,500 for participants age 50 or older) for calendar year 2018 and $18,000 ($24,000 for participants age 50 or older) for calendar year 2017. 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 $37,000 for calendar year 2018 and $26,000 for calendar year 2017.

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

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

(14) Bond Issue Proceeds

Claims of the Health Insurance Reserve Fund (0907) are generally funded through cash received from the General Revenue Fund (001) and Road Fund (011). As a result, at fiscal year-end, all liabilities of Fund 0907 are allocated proportionately as amounts due from Funds 001 and 011. During fiscal year 2018, the State of Illinois issued $4.5 billion in General Obligation Bonds, Series November 2017D. The Department received bond proceeds totaling $3.982 billion from Fund 593 into Fund 0907 to be used to pay health insurance claims through June 30, 2018. Due to the bond issuance, liabilities of Fund 0907 decreased significantly in fiscal year 2018. The change in amounts Fund 001 considered due to Fund 0907 at June 30, 2017 as compared to June 30, 2018 resulted in negative expenditures in Fund 001 for the year ended June 30, 2018. The effect of the bond proceeds have been reported as a transfer-in, rather than as a reduction of expenditures, in Fund 001. While a transfer was not formally processed from Fund 593 to Fund 001 and then to Fund 907, that is constructively what happened in order to pay down the interfund liability from Fund 001 to Fund 907.

(15) Prior Period Adjustment

The Department's financial statements have been restated as of June 30, 2017. The Governmental Activities were restated as a result of implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* which requires the OPEB liability to be reported as a component of long-term obligations in accrual-basis financial statements. In addition, deferred outflows and inflows of resources related to changes in the total OPEB liability are required to be reported.

	Department-Wide Governmental Activities
Net position, June 30, 2017, as previously reported	$ (21,622,940)
Eliminate:	
Net OPEB obligation	16,484,893
Record:	
Total OPEB liability	(152,853)
Deferred outflows of resources	339
Net position, June 30, 2017, as restated	$ (5,290,561)

(15) Prior Period Adjustment (continued)

The Department's fiduciary fund financial statements have been restated as of June 30, 2017 due to an overstatement of state contributions and understatement of due to other funds.

	Teacher Health Insurance Security 0203	Community College Health Insurance Security 0577	State Employees' Deferred Compensation Plan 0755	Total Pension (and Other Employee Benefit) Trust Funds
Net position, June 30, 2017, as previously reported	$ (45,029)	$ (50,818)	$ 4,331,221	$ 4,235,374
Due to Other Funds	(6,196)	(168)	-	(6,364)
State Contributions	(8,463)	(345)	-	(8,808)
Net position, June 30, 2017, as restated	$ (59,688)	$ (51,331)	$ 4,331,221	$ 4,220,202

COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS

Combining Balance Sheet - Nonmajor Governmental Funds

June 30, 2018 (Expressed in Thousands)

	Special Revenue	Capital Projects	Total
	State Surplus Property Revolving 0903	Capital Development 0141	Total
ASSETS			
Cash equity with State Treasurer	$ 1,829	$ -	$ 1,829
Receivables, net:			
Other	63	-	63
Due from other State funds	11	-	11
Total assets	1,903	$ -	$ 1,903
LIABILITIES			
Accounts payable and accrued liabilities	$ 30	$ 2,320	$ 2,350
Due to other Department funds	117	-	117
Due to other State funds	62	-	62
Total liabilities	209	2,320	2,529
Deferred inflows of resources - unavailable revenue	-		-
Total liabilities and deferred inflows of resources	209	2,320	2,529
FUND BALANCES (DEFICITS)			
Committed - General Government	1,694	-	1,694
Unassigned	-	(2,320)	(2,320)
Total fund balances (deficits)	1,694	(2,320)	(626)
Total liabilities, deferred inflows of resources and fund balances (deficits)	$ 1,903	$ -	$ 1,903

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

For the Year Ended June 30, 2018 (Expressed in Thousands)

	Special Revenue	Capital Projects	Total
	State Surplus Property Revolving 0903	Capital Development 0141	Total
REVENUES			
Other revenues	$ 2,112	$ -	$ 2,112
Federal operating revenues	2,247	-	2,247
Other charges for services	255	-	255
Total revenues	4,614	-	4,614
EXPENDITURES			
General government	3,182	-	3,182
Capital outlays	471	2,320	2,791
Total expenditures	3,653	2,320	5,973
Excess (deficiency) of revenues over (under) expenditures	961	(2,320)	(1,359)
Net change in fund balances	961	(2,320)	(1,359)
Fund balances, July 1, 2017	733	-	733
Fund Balances, June 30, 2018	$ 1,694	$ (2,320)	$ (626)

Combining Statement of Net Position
Internal Service Funds

June 30, 2018 (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	$ 12,615	$ 16,812	$ 8,760	$ 16,656	$ 90,001	$ -	$ 144,844
Cash and cash equivalents	-	-	-	15,115	146,240	-	161,355
Securities lending collateral equity of State Treasurer	-	4,744	2,650	4,595	30,099	-	42,088
Receivables, net:							
Intergovernmental	63	-	-	-	5,901	-	5,964
Other	15	19	11	18	17,928	9,769	27,760
Due from other Department fiduciary funds	-	4	-	-	12	-	16
Due from other State fiduciary funds	356	858	462	-	116	-	1,792
Due from other Department funds	249	44,758	-	-	2,020,546	5,004	2,070,557
Due from other State funds	30,714	96,371	23,671	572,431	4,816	143	728,146
Due from State of Illinois component units	-	26	-	-	13,467	399	13,892
Inventories	2,028	-	-	-	-	-	2,028
Total current assets	46,040	163,592	35,554	608,815	2,329,126	15,315	3,198,442
Capital assets not being depreciated	-	38,336	-	-	-	-	38,336
Capital assets being depreciated, net	5,808	124,152	91	-	-	-	130,051
Total noncurrent assets	5,808	162,488	91	-	-	-	168,387
Total assets	51,848	326,080	35,645	608,815	2,329,126	15,315	3,366,829
LIABILITIES							
Accounts payable and accrued liabilities	8,947	51,644	2,000	560	2,297,840	4,779	2,365,770
Intergovernmental payables	40	4,857	51	2	150	-	5,100
Due to other State fiduciary funds	213	570	318	12	62	-	1,175
Due to other Department funds	671	335	250	4	2	10,536	11,798
Due to other State funds	870	3,141	1,060	84	636	-	5,791
Due to State of Illinois component units	63	284	-	-	-	-	347
Obligations under securities lending of State Treasurer	-	4,744	2,650	4,595	30,099	-	42,088
Unearned revenue	-	7,933	-	-	-	-	7,933
Current portion of long-term obligations	190	266	100	109,758	48	-	110,362
Total current liabilities	10,994	73,774	6,429	115,015	2,328,837	15,315	2,550,364
Noncurrent portion of long-term obligations	707	2,131	1,360	493,800	289	-	498,287
Total liabilities	11,701	75,905	7,789	608,815	2,329,126	15,315	3,048,651
NET POSITION							
Net investment in capital assets	5,808	162,488	91	-	-	-	168,387
Unrestricted	34,339	87,687	27,765	-	-	-	149,791
Total net position	$ 40,147	$ 250,175	$ 27,856	$ -	$ -	$ -	$ 318,178

State of Illinois

Department of Central Management Services

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

For the Year Ended June 30, 2018 (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	$ 48,086	$ 185,791	$ 41,000	$ 99,697	$ 2,865,673	$ 18,222	$ 3,258,469
Other	120	-	-	-	-	-	120
Total operating revenues	48,206	185,791	41,000	99,697	2,865,673	18,222	3,258,589
OPERATING EXPENSES							
Cost of sales and services	34,948	177,104	32,815	-	-	18,429	263,296
Claims and judgments	-	-	-	100,131	2,368,235	-	2,468,366
General and administrative	5,489	9,247	-	-	67,559	50	82,345
Depreciation	8,056	13,225	15	-	-	-	21,296
Other	24	-	-	-	-	-	24
Total operating expenses	48,517	199,576	32,830	100,131	2,435,794	18,479	2,835,327
Operating income (loss)	(311)	(13,785)	8,170	(434)	429,879	(257)	423,262
NONOPERATING REVENUES (EXPENSES)							
Interest and investment income	-	192	106	434	4,248	257	5,237
Interest expense	15	(527)	(2)	-	(440,751)	-	(441,265)
Other revenue	-	-	-	-	6,624	-	6,624
Other expenses	(11)	-	-	-	-	-	(11)
Income (loss) before contributions	(307)	(14,120)	8,274	-	-	-	(6,153)
Contributions of capital assets	-	1,477	47	-	-	-	1,524
Change in net position	(307)	(12,643)	8,321	-	-	-	(4,629)
Net position, July 1, 2017	40,454	262,818	19,535	-	-	-	322,807
Net position, June 30, 2018	$ 40,147	$ 250,175	$ 27,856	$ -	$ -	$ -	$ 318,178

Combining Statement of Cash Flows
Internal Service Funds

For the Year Ended June 30, 2018 (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	$ 5,904	$ 22	$ -	$ -	$ 129,957	$ -	$ 135,883
Cash received from transactions with other funds	37,863	169,533	35,871	99,089	6,015,739	9,744	6,367,839
Cash payments to suppliers for goods and services	(25,279)	(150,919)	(30,007)	(8,271)	(5,638,599)	(10,001)	(5,863,076)
Cash payments to employees for services	(18,011)	(31,563)	-	-	(4,614)	-	(54,188)
Cash receipts from other operating activities	120	-	-		57,296	-	57,416
Cash payments for other operating activities				(103,337)			(103,337)
Net cash provided (used) by operating activities	597	(12,927)	5,864	(12,519)	559,779	(257)	540,537
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES							
Grants received	-	-	-	-	5,346	-	5,346
Other noncapital financing activities	(39)	-	(4)	-	(485,455)	-	(485,498)
Net cash provided (used) by noncapital financing activities	(39)	-	(4)	-	(480,109)	-	(480,152)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES							
Acquisition and construction of capital assets	(6,953)	(906)	(32)	-	-	-	(7,891)
Principal paid on capital debt	-	(4,225)	-	-	-	-	(4,225)
Interest paid on capital debt	-	(6)	-	-	-	-	(6)
Net cash (used) by capital and related financing activities	(6,953)	(5,137)	(32)	-	-	-	(12,122)
CASH FLOWS FROM INVESTING ACTIVITIES							
Interest and dividends on investments	-	208	99	435	4,192	257	5,191
Net cash provided by investing activities	-	208	99	435	4,192	257	5,191
Net increase (decrease) in cash and cash equivalents	(6,395)	(17,856)	5,927	(12,084)	83,862	-	53,454
Cash and cash equivalents, July 1, 2017	19,010	34,668	2,833	43,855	152,379	-	252,745
CASH AND CASH EQUIVALENTS, JUNE 30, 2018	$ 12,615	$ 16,812	$ 8,760	$ 31,771	$ 236,241	$ -	$ 306,199
Reconciliation of cash and cash equivalents to the statement of net position:							
Total cash and cash equivalents per the statement of net assets	-	-	-	15,115	146,240	-	161,355
Add: cash equity with State Treasurer	12,615	16,812	8,760	16,656	90,001	-	144,844
CASH AND CASH EQUIVALENTS, JUNE 30, 2018	$ 12,615	$ 16,812	$ 8,760	$ 31,771	$ 236,241	$ -	$ 306,199

State of Illinois
Department of Central Management Services

Combining Statement of Cash Flows
Internal Service Funds

For the Year Ended June 30, 2018 (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)	$ (311)	$ (13,785)	$ 8,170	$ (434)	$ 429,879	$ (257)	$ 423,262
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:							
Depreciation	8,056	13,225	15	-	-	-	21,296
Changes in assets and liabilities:							
(Increase) decrease in accounts receivable	(2)	-	-	-	(5,206)	(8,673)	(13,881)
(Increase) decrease in intergovernmental receivables	(60)	-	-	-	-	-	(60)
(Increase) decrease in due from other funds	(4,885)	(19,362)	(5,593)	(667)	3,283,208	292	3,252,993
(Increase) decrease in due from component units	-	(11)	-	-	(3,284)	(97)	(3,392)
(Increase) decrease in inventories	3	-	-	-	-	-	3
Increase (decrease) in accounts payable and accrued liabilities	(2,246)	1,094	935	(77)	(3,144,192)	(2,052)	(3,146,538)
Increase (decrease) in intergovernmental payables	13	409	49	2	120	-	593
Increase (decrease) in due to other funds	330	2,093	1,192	99	(783)	10,530	13,461
Increase (decrease) in due to component units	1	(39)	-	-	-	-	(38)
Increase (decrease) in unearned revenues	-	3,550	-	-	-	-	3,550
Increase (decrease) in other liabilities	(302)	(101)	1,096	(11,442)	37	-	(10,712)
Total adjustments	908	858	(2,306)	(12,085)	129,900	-	117,275
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$ 597	$ (12,927)	$ 5,864	$ (12,519)	$ 559,779	$ (257)	$ 540,537
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES							
Gain (loss) on sale of property and equipment	$ (11)	$ -	$ -	$ -	$ -	$ -	$ (11)
Transfer of capital assets, net of related debt, to/from other State funds	$ -	$ 1,477	$ 47	$ -	$ -	$ -	$ 1,524
Change in fair market value of investments	$ -	$ -	$ -	$ -	$ (537)	$ -	$ (537)

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

June 30, 2018 (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	$ 43,655	$ 2,800	$ 3,194	$ 49,649
Cash and cash equivalents	20,996	1,415	52,382	74,793
Investments:				
Equities	-	-	3,784,468	3,784,468
Debt mutual funds	-	-	114,319	114,319
Other	-	-	583,962	583,962
Intergovernmental receivables	1,448	170	-	1,618
Other receivables, net	14,892	638	761	16,291
Due from other State funds	178,161	3,950	-	182,111
Loans and note receivable, net	-	-	40,551	40,551
Securities lending collateral equity of State Treasurer	18,757	906	961	20,624
Total assets	277,909	9,879	4,580,598	4,868,386
LIABILITIES				
Accounts payable and accrued liabilities	268,187	73,211	997	342,395
Intergovernmental payables	2	-	2	4
Due to other Department funds	6	2	8	16
Due to other State fiduciary funds	14	2	10	26
Due to other State funds	9,362	293	43	9,698
Obligations under securities lending of State Treasurer	18,757	906	961	20,624
Current portion of long-term obligations	16	-	6	22
Noncurrent portion of long-term obligations	52	5	126	183
Total liabilities	296,396	74,419	2,153	372,968
NET POSITION				
Unrestricted net position	(18,487)	(64,540)	-	(83,027)
Restricted for pensions	-	-	4,578,445	4,578,445
Total net position	$ (18,487)	$ (64,540)	$ 4,578,445	$ 4,495,418

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

For the Year Ended June 30, 2018 (Expressed in Thousands)

	Teacher Health Insurance Security 0203	Community College Health Insurance Security 0577	State Employees' Deferred Compensation Plan 0755	Total
Deposits/Contributions:				
Employer	$ 88,996	$ 4,463	$ -	$ 93,459
State	119,568	4,367	-	123,935
Members/participants	119,906	4,463	159,666	284,035
Other contributions	1,614	207	6,599	8,420
Total contributions	330,084	13,500	166,265	509,849
Investment income:				
Interest, dividends and other investment income	743	59	19,326	20,128
Net increase in fair value of investments	-	-	333,896	333,896
Reimbursement of investment expenses not separable from investment income	-	-	3,002	3,002
Less: investment expense	-	-	(479)	(479)
Net investment income	743	59	355,745	356,547
Total additions	330,827	13,559	522,010	866,396
Deductions:				
Benefit payments	275,400	23,225	268,592	567,217
Refunds	-	-	47	47
Other Deductions	-	-	3,366	3,366
General and administration	14,226	3,543	2,781	20,550
Total deductions	289,626	26,768	274,786	591,180
Net increase (decrease) in net position	41,201	(13,209)	247,224	275,216
Net position, July 1, 2017, as restated	(59,688)	(51,331)	4,331,221	4,220,202
Net position, June 30, 2018	$ (18,487)	$ (64,540)	$ 4,578,445	$ 4,495,418

Combining Statement of Fiduciary Net Position
Agency Funds
June 30, 2018 (Expressed in Thousands)

	Flexible Spending Account 0202	Group Insurance Premium 0457	Total
ASSETS			
Cash equity with State Treasurer	$ 3,921	$ 11,873	$ 15,794
Cash and cash equivalents	4,908	-	4,908
Securities lending collateral equity of State Treasurer	-	3,975	3,975
Total assets	$ 8,829	$ 15,848	$ 24,677
LIABILITIES			
Accounts payable and accrued liabilities	$ 8,749	$ 11,873	$ 20,622
Due to State of Illinois component units	80	-	80
Obligations under securities lending of State Treasurer	-	3,975	3,975
Total liabilities	$ 8,829	$ 15,848	$ 24,677

Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2018 (Expressed in Thousands)

	Balance at July 1, 2017	Additions	Deletions	Balance at June 30, 2018
Flexible Spending Account Fund (0202):				
ASSETS				
Cash equity with State Treasurer	$ 3,189	$ 32,379	$ 31,647	$ 3,921
Cash and cash equivalents	4,612	27,249	26,953	4,908
Total assets	$ 7,801	$ 59,628	$ 58,600	$ 8,829
LIABILITIES				
Accounts payable and accrued liabilities	$ 7,765	$ 31,877	$ 30,893	$ 8,749
Due to State of Illinois component units	36	502	458	80
Total liabilities	$ 7,801	$ 32,379	$ 31,351	$ 8,829
Group Insurance Premium Fund (0457):				
ASSETS				
Cash equity with State Treasurer	$ 8,474	$ 101,569	$ 98,170	$ 11,873
Other receivables, net	7,430	-	7,430	-
Securities lending collateral equity of State Treasurer	1,938	132,676	130,639	3,975
Total assets	$ 17,842	$ 234,245	$ 236,239	$ 15,848
LIABILITIES				
Accounts payable and accrued liabilities	$ 15,904	$ 101,569	$ 105,600	$ 11,873
Obligations under securities lending of State Treasurer	1,938	132,676	130,639	3,975
Total liabilities	$ 17,842	$ 234,245	$ 236,239	$ 15,848
Total				
ASSETS				
Cash equity with State Treasurer	$ 11,663	$ 133,948	$ 129,817	$ 15,794
Cash and cash equivalents	4,612	27,249	26,953	4,908
Other receivables, net	7,430	-	7,430	-
Securities lending collateral equity of State Treasurer	1,938	132,676	130,639	3,975
Total assets	$ 25,643	$ 293,873	$ 294,839	$ 24,677
LIABILITIES				
Accounts payable and accrued liabilities	$ 23,669	$ 133,446	$ 136,493	$ 20,622
Due to State of Illinois component units	36	502	458	80
Obligations under securities lending of State Treasurer	1,938	132,676	130,639	3,975
Total liabilities	$ 25,643	$ 266,624	$ 267,590	$ 24,677

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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, 2018, 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 March 25, 2019.

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 2018-001, 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
March 25, 2019

SCHEDULE OF FINDINGS

CURRENT FINDINGS – *Government Auditing Standards*

2018-001 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 and omission of a required disclosure.

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 financial statements as of, and for the year ended, June 30, 2018, 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 overstated liabilities in the Workers' Compensation Revolving Fund (0332) by $1.076 million at June 30, 2018 due to the duplicate recognition of a claim award in fiscal year 2018 that had been previously recognized in the prior fiscal year. The Department deemed this error immaterial and did not revise the applicable financial statements.

- The Department understated liabilities in the Workers' Compensation Revolving Fund (0332) by $1.352 million at June 30, 2018 due to the exclusion of significant lapse period payroll data as well as all of the payroll data for one agency from the data used in actuarial calculations. The Department deemed this error immaterial and did not revise the applicable financial statements.

- The Department overstated the amount due from the General Revenue Fund (GRF, 0001), and understated the amount due from the Road Fund (0011), to the Health Insurance Reserve Fund (HIRF, 0907) by $196 thousand due to errors in the data used to allocate the HIRF deficit to these funds. Additionally, the data errors resulted in the misallocation of expenditures in the GRF and governmental activities financial statements as follows:

GRF Expenditure Account	Misstatement (in thousands)
505	$ 6,055
510	62
515	761
520	158
525	67
530	(7,288)
535	(11)
	$ (196)

  Data errors included the exclusion of $43.775 million of lapse period payroll expenditures and use of State universities payroll expenditures determined based on object of expenditure (appropriation) rather than detail object code (expenditure). The Department deemed this error immaterial and did not revise the applicable financial statements.

- During the migration of data from the Central Inventory System (CIS) to the State's new ERP system, the Department found that numerous vehicles had not been properly added to the CIS property records in prior years due to financial information not transferring correctly from Fleet Focus, the Department's vehicle fleet management system. During fiscal year 2018, the Department entered the missing data into CIS for 195 vehicles with costs totaling $4.697 million, resulting in those vehicles being reported as additions for fiscal year 2018 financial reporting. In addition, approximately $3.903 million of depreciation reported as current year depreciation is attributable to prior fiscal years. The Department deemed this error immaterial and did not revise the applicable financial statements.

- The Department failed to disclose commitments of $8.1 million in the State Garage Revolving Fund (0303) at June 30, 2018 related to vehicles ordered but not received as of that date. The Department revised the notes to the financial statements to include this disclosure.

- The Department improperly reported $3.982 billion of bond proceeds received as a reduction of expenditures rather than as transfers-in. During fiscal year 2018 the State issued general obligation bonds from which the Department received $3.982 billion to pay health insurance claims liabilities through June 30, 2017. The incurrence of these health insurance claim liabilities in the HIRF (0907) had been recognized as expenditures and amounts due to the HIRF in the GRF (0001) in prior periods. In consultation with the Illinois Office of the Comptroller and to conform to the State-wide accounting for the transfer of the bond proceeds to the HIRF, the Department reported the reduction of the amount due to the HIRF through reductions of current year expenditures in the GRF. However, this resulted in the Department's financial statements not being reported in accordance with generally accepted accounting principles (GAAP). The National Council on Governmental Accounting (NCGA) Statement 1, paragraph 109, states, "the term "revenues" means increases in (sources of) fund financial resources other than from interfund transfers and debt issuance proceeds; and the term "expenditures" means decreases in (uses of) fund financial resources other than through interfund transfers. Revenue and expenditure accounts thus reflect the changes in the financial condition of a governmental fund which occur during a given time period except those arising from transfers and general long-term debt issuance." The Department's financial statement presentation of the GRF prior to the adjustment showed negative expenditures of approximately $1.924 billion. The Department reclassified the $3.982 billion received from expenditures to transfers-in for the June 30, 2018 financial statements.

During the previous engagement, the Department stated it would 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 stated it would work diligently to fill key positions to ensure an independent, internal analytical review of calculations is documented and completed timely. During the current engagement, the Department stated that errors were due to obtaining lapse period data prior to the end of the lapse period in order to meet GAAP reporting deadlines, data corruption and system integration issues between Fleet Focus and CIS that went undetected, human error, and oversight. In regards to the reporting of the bond proceeds, Department management stated that the transactions were reported by the Department as instructed by the Illinois Office of the Comptroller which was exactly how the transaction flowed through State funds.

As a result of these deficiencies, the Department's GAAP reporting packages and financial statements were inaccurate and required corrections. (Finding Code No. 2018-001, 2017-001, 2016-001, 2015-001)

RECOMMENDATION

We recommend the Department implement procedures and training measures throughout the Department to ensure required financial information is prepared and 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 complete, 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, reconciliation of accounting records used for transaction recording and reporting, supervisory review of supporting spreadsheets for data accumulation, the preparation of management estimates, consideration of required financial statement disclosures, and conformity to GAAP for infrequent or uncommon transactions.

DEPARTMENT RESPONSE

The Department continues to strive to ensure accurate and timely GAAP reporting. There are numerous factors such as conflicting timelines and differing interpretations of accounting classifications. The Department has and will continue to collaborate with the IOC during its GAAP reporting process.

PRIOR YEAR FINDINGS NOT REPEATED

None.