State Employees' Retirement System of Illinois

Compliance Examination

For the Year Ended June 30, 2019
Performed as Special Assistant Auditors for
the Auditor General, State of Illinois

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State Employees' Retirement System of Illinois
Compliance Examination

For the Year Ended June 30, 2019

Table of Contents

Table of Contents

Other Reports Issued Under a Separate Cover:

The State Employees' Retirement System's (System) financial statements as of and for the year ended June 30, 2019, have been issued under a separate cover. Additionally, the System has issued its Report on Allocation of Pension Amounts under separate cover. The purpose of this report is to provide the audited information necessary to System employers and the State of Illinois to report their proportionate share of the collective pension amounts in their financial statements as required by GASB Statement No. 68.

System Officials

Executive Secretary	Timothy B. Blair
Accounting Division Manager	Alan Fowler, CPA
Internal Auditor	Casey Evans

Governing Board Members

Chair of the Board	Susana Mendoza
Trustee (Vice-Chair of the Board)	David Morris
Trustee	Danny Silverthorn
Trustee	Yasmin Bates-Brown
Trustee	Renee Friedman
Trustee	Thomas Allison
Trustee	Carl A. Jenkins
Trustee	Jeremy Hawk
Trustee	Shaun Dawson
Trustee	Stephen Mittons
Trustee	John Tilden
Trustee	Alan Latoza
Trustee	Vacant

Office Locations

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P.O. Box 19255
Springfield, Illinois 62794-9255

State of Illinois Building
160 North LaSalle Street, Suite N725
Chicago, Illinois 60601

SERS srs.illinois.gov

State Employees' Retirement System

MANAGEMENT ASSERTION LETTER

April 1, 2020

RSM US LLP
20 North Martingale Road, Suite 500
Schaumburg, IL 60173

Ladies and Gentlemen:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the State Employees' Retirement System of Illinois (System). We are responsible for and we have established and maintained an effective system of internal controls over compliance requirements. We have performed an evaluation of the System's compliance with the following specified requirements during the year ended June 30, 2019. Based on this evaluation, we assert that during the year ended June 30, 2019, the System has materially complied with the specified requirements listed below.

A. The System has obligated, expended, received, and used public funds of the State of Illinois (State) in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.

B. The System has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions, or mandatory directions imposed by law upon such obligation, expenditure, receipt, or use.

C. The System has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.

D. State revenues and receipts collected by the System are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate, and in accordance with law.

E. Money or negotiable securities or similar assets handled by the System on behalf of the State or held in trust by the System have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

Yours truly,

State Employees' Retirement System of Illinois

SIGNED ORIGINAL ON FILE

Timothy B. Blair, Executive Secretary

SIGNED ORIGINAL ON FILE

Alan Fowler, CPA, Accounting Division Manager

State Employees' Retirement System of Illinois
Compliance Examination

For the Year Ended June 30, 2019

Compliance Report

Summary

The compliance testing performed during this examination was conducted in accordance with *Government Auditing Standards* and in accordance with the Illinois State Auditing Act.

Accountant's Report

The Independent Accountant's Report on State Compliance, on Internal Control Over Compliance, and on Supplementary Information for State Compliance Purposes does not contain scope limitations, disclaimers or other significant non-standard language.

Summary of Findings

Number of	Current Report	Prior Report
Findings	2	1
Repeated findings	1	1
Prior recommendations implemented or not repeated	0	2

Schedule of Findings

Item No.	Page	Last Reported	Description	Finding Type
			Findings (State Compliance)	
2019-001	11	2018	Board of Trustees Vacancy	Noncompliance
2019-002	12	New	Failure to Report State Hispanic and Asian American Employment Plan	Noncompliance and Significant Deficiency

Exit Conference

The System waived an exit conference in a correspondence from Casey Evans, Internal Auditor, on January 30, 2020. The responses to the recommendations were provided by Casey Evans, Internal Auditor, in a correspondence dated February 10, 2020.

**Independent Accountant's Report
on State Compliance, on Internal Control Over Compliance,
and on Supplementary Information for State Compliance Purposes**

Honorable Frank J. Mautino
Auditor General
State of Illinois

Board of Trustees
State Employees' Retirement System of Illinois

Compliance

As Special Assistant Auditors for the Auditor General, we have examined compliance by the State Employees' Retirement System of Illinois (System) with the specified requirements listed below, as more fully described in the *Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide)* as adopted by the Auditor General, during the year ended June 30, 2019. Management of the System is responsible for compliance with the specified requirements. Our responsibility is to express an opinion on the System's compliance with the specified requirements based on our examination.

The specified requirements are:

A. The System has obligated, expended, received, and used public funds of the State of Illinois (State) in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.

B. The System has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions, or mandatory directions imposed by law upon such obligation, expenditure, receipt, or use.

C. The System has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.

D. State revenues and receipts collected by the System are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate, and in accordance with law.

E. Money or negotiable securities or similar assets handled by the System on behalf of the State or held in trust by the System have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Illinois State Auditing Act (Act), and the *Audit Guide*. Those standards, the Act, and the *Audit Guide* require that we plan and perform the examination to obtain reasonable assurance about whether the System complied with the specified requirements in all material respects. An examination involves performing procedures to obtain evidence about whether the System complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance with the specified requirements, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Our examination does not provide a legal determination on the System's compliance with the specified requirements.

In our opinion, the System complied with the specified requirements during the year ended June 30, 2019, in all material respects. However, the results of our procedures disclosed instances of noncompliance with the specified requirements, which are required to be reported in accordance with criteria established by the *Audit Guide* and are described in the accompanying Schedule of Findings as items 2019-001 and 2019-002.

The System's responses to the compliance findings identified in our examination are described in the accompanying Schedule of Findings. The System's responses were not subjected to the procedures applied in the examination and, accordingly, we express no opinion on the responses.

The purpose of this report is solely to describe the scope of our testing and the results of that testing in accordance with the requirements of the *Audit Guide*. Accordingly, this report is not suitable for any other purpose.

Internal Control Over Compliance

Management of the System is responsible for establishing and maintaining effective internal control over compliance with the specified requirements (internal control).

In planning and performing our examination, we considered the System's internal control to determine the examination procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the System's compliance with the specified requirements and to test and report on the System's internal control in accordance with the *Audit Guide*, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with the specified requirements 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 material noncompliance with the specified requirements 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 have not been identified. Given these limitations, during our examination, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings as item 2019-002 that we consider to be a significant deficiency.

As required by the *Audit Guide*, immaterial findings excluded from this report have been reported in a separate letter.

The System's response to the internal control finding identified in our examination is described in the accompanying Schedule of Findings. The System's response was not subjected to the procedures applied in the examination and, accordingly, we express no opinion on the response.

The purpose of this report is solely to describe the scope of our testing of internal control and the results of that testing based on the requirements of the *Audit Guide*. Accordingly, this report is not suitable for any other purpose.

Supplementary Information for State Compliance Purposes

As Special Assistant Auditors for the Auditor General, we have audited the accompanying Statement of Fiduciary Net Position of the State Employees' Retirement System of the State of Illinois (System), as of June 30, 2019, and the Statement of Changes in Fiduciary Net Position for the year then ended, and the related notes to the financial statements, which collectively comprise the System's basic financial statements (not presented herein), and have issued our report thereon dated December 13, 2019, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. We did not audit the 2019 financial statements of the Illinois State Board of Investment, an internal investment pool of the State of Illinois, which statements represent 97 percent, 97 percent and 30 percent, respectively, of total assets, net position restricted for pension benefits, and total additions of the System. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Illinois State Board of Investment is based solely on the report of the other auditors. We have not performed any procedures with respect to the audited financial statements subsequent to December 13, 2019. The accompanying supplementary information for the year ended June 30, 2019, in Schedules 1 through 6 is presented for the purposes of additional analysis and is not a required part of the basic financial statements of the System. Such information is the responsibility of System management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The accompanying supplementary information for the year ended June 30, 2019, in Schedules 1 through 6 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 for the year ended June 30, 2019, in Schedules 1 through 6 is fairly stated in all material respects in relation to the basic financial statements as a whole for the year ended June 30, 2019.

We also previously audited, in accordance with auditing standards generally accepted in the United States of America, the System's basic financial statements as of and for the years ended June 30, 2018 and June 30, 2017 (not presented herein), and have issued our reports thereon dated December 14, 2018 and January 19, 2018, which contained unmodified opinions on the respective basic financial statements. We did not audit the 2018 financial statements of the Illinois State Board of Investment, an internal investment pool of the State of Illinois, which statements represent 98 percent, 99 percent and 36 percent, respectively, of total assets, net position restricted for pension benefits, and total additions of the System. We also did not audit the 2017 financial statements of the Illinois State Board of Investment, an internal investment pool of the State of Illinois, which statements represent 98 percent, 99 percent and 47 percent, respectively, of total assets, net position restricted for pension benefits, and total additions of the System. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as it relates to the amounts included for the Illinois State Board of Investment is based solely on the reports of other auditors. The accompanying supplementary information for the years ended June 30, 2018 and June 30, 2017 in Schedules 2 through 6 and Schedule 2, respectively, is the responsibility of System management and was derived from and relates directly to the underlying accounting and other records used to prepare the June 30, 2018 and June 30, 2017 financial statements. The accompanying supplementary information for the years ended June 30, 2018 and June 30, 2017 in Schedules 2 through 6 and Schedule 2, respectively, has been subjected to the auditing procedures applied in the audit of the June 30, 2018 and June 30, 2017 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those basic financial statements or to those 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 for the years ended June 30, 2018 and June 30, 2017 in Schedules 2 through 6 and Schedule 2, respectively, is fairly stated in all material respects in relation to the basic financial statements as a whole for the years ended June 30, 2018 and June 30, 2017.

The accompanying supplementary information in the Analysis of Operations Section is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

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Schaumburg, Illinois
April 1, 2020, except for our report on the Supplementary Information
for State Compliance Purposes, as to which the date is
December 13, 2019

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

Board of Trustees
State Employees' Retirement System of Illinois

Report on the Financial Statements

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 State Employees' Retirement System of Illinois (System), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents and we have issued our report thereon dated December 13, 2019. Our report includes a reference to other auditors who audited the financial statements of the Illinois State Board of Investment, an internal investment pool of the State of Illinois, as described in our report on the System's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting (internal control) or compliance and other matters that are reported on separately by those auditors. Our report also includes a reference to the fact that the actuarially determined net pension liability is dependent on several assumptions, including the assumption that future required contributions from State sources are made based on statutory requirements.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 System's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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Schaumburg, Illinois
December 13, 2019

Finding No. 2019-001 Board of Trustees Vacancy

The State Employees' Retirement System of Illinois (System) has had a vacancy in one of its thirteen required trustees of the Board for more than four years as of the end of fieldwork on November 5, 2019.

During the current compliance examination, the auditors were aware that a Board member had resigned from the Board on October 15, 2015. The System's Executive Secretary informed the Board of the resignation on that same day and on November 4, 2015 the Executive Secretary communicated this vacancy to the Governor's Office via email requesting that the vacancy be filled. On, February 1, 2019, the Executive Secretary followed up with the Governor's Office via email informing the incoming Governor's team of the current vacancy. According to System officials there has not been an official response from the Governor's Office as of the end of fieldwork on November 5, 2019.

The Illinois Pension Code (40 ILCS 5/14-134) states "Beginning on the 90th day after the effective date of this amendatory Act of the 96th General Assembly, the board shall consist of 13 trustees as follows:

(1) the Comptroller, who shall be the Chairperson;
(2) six persons appointed by the Governor with the advice and consent of the Senate who may not be members of the system or hold an elective State office and who shall serve for a term of 5 years, except that the terms of the initial appointees under this amendatory Act of the 96th General Assembly shall be as follows: 3 for a term of 3 years and 3 for a term of 5 years;
(3) four active participants of the system having at least 8 years of creditable service, to be elected from the contributing members of the system by the contribution members as provided in Section 14-134.1; and
(4) two annuitants of the system who have been annuitants for at least one full year, to be elected from and by the annuitants of the system, as provided in section 14-134.1."

System officials stated the Executive Secretary formally communicated with the Governor's Office requesting appointment of a new member to fill the vacancy at the time the vacancy occurred and has not yet received an official response. Further, System officials stated the System Board has been able to establish a quorum and conduct the business of the System for every meeting held in fiscal year 2019.

Failure to operate with the full thirteen members of the Board of Trustees could impact the Board's ability to establish a quorum and timely conduct the business of the System. (Finding Code No. 2019-001, 2018-001, 2017-002, 2016-003)

Recommendation:

We recommend the System continue to communicate with the Governor's Office in order to fill the vacancy in its Board of Trustees.

System Response:

The System accepts the finding and notes that the Board does not have statutory authority to make such an appointment to fill the vacancy. System officials communicated this vacancy to the administration in fiscal year 2019 and will continue to seek an appointment to fill the vacancy.

Finding No. 2019-002 Failure to Report State Hispanic and Asian American Employment Plan

The State Employees' Retirement System of Illinois (System) did not file the Hispanic and Asian American Employment Plan Survey.

During the current compliance examination, we determined based on our compliance testing the System did not report to the Department of Central Management Services (DCMS) and the Department of Human Rights (DHR), on forms prescribed by those Departments, all of the System's activities in implementing the State Hispanic and Asian American Employment Plan.

The Civil Administrative Code of Illinois (20 ILCS 405/405-120 & 125) requires each State agency to report annually to the Department of Central Management Services and the Department of Human Rights, in a format prescribed by the Department (DCMS), all of the agency's activities in implementing the State Hispanic Employment Plan and the State Asian-American Employment Plan. According to the State Hispanic and Asian American Employment Plan survey submitted by DCMS to the General Assembly, they requested State agencies to submit their employment plan surveys for fiscal year 2018 between December 5, 2018 and December 21, 2018, with extensions granted through January 11, 2019.

System officials stated the report filing period was missed due to staff oversight and that the reporting system would not allow the System to submit the employment plan surveys after the due date.

Failure to adequately report on forms prescribed by DCMS and DHR denies valuable information related to the System's workforce to members of the General Assembly and State government officials charged with the goal of improving the employment of these diverse groups within State government. (Finding Code No. 2019-002)

Recommendation:

We recommend the System implement a formal process to ensure timely reporting of the System's State Hispanic and Asian American Employment Plan with DCMS and DHR.

System Response:

The System accepts the finding and the Human Resources Manager has developed a calendar to ensure reports are completed and timely filed. The System has timely filed its State Hispanic and Asian American Employment Plans for calendar year 2020 ahead of established due dates.

Schedule of Appropriations, Expenditures and Lapsed Balances
Appropriations for Fiscal Year 2019
Sixteen Months Ended October 31, 2019

Public Act 100-0586	Appropriations (Net of Transfers)	Expenditures Through June 30	Lapse Period Expenditures July 1 to October 31	Total Expenditures 16 Months Ended October 31	Balances Lapsed October 31
Appropriated Funds					
General Revenue Fund - 001					
Personal services	$ 45,800	$ 45,665	$ -	$ 45,665	$ 135
Employee retirement contributions paid by employer	13,500	-	13,427	13,427	73
Appropriation for State's contribution	1,124,893,450	1,124,893,450	-	1,124,893,450	-
Continuing appropriation for State's contribution	282,903,200	282,903,200	(13,114,400)	269,788,800	13,114,400
Social security and Medicare contributions	3,500	3,402	-	3,402	98
Contractual services	22,900	16,280	6,580	22,860	40
Electronic data processing	700	-	671	671	29
Telecommunications	300	198	17	215	85
Unpaid wage increases	12,500	-	-	-	12,500
Total appropriated funds	$ 1,407,895,850	$ 1,407,862,195	$ (13,093,705)	$ 1,394,768,490	$ 13,127,360
Nonappropriated Funds					
State Employees' Retirement System Fund - 0479					
Personal services		$ 4,507,540	$ 437,942	$ 4,945,482	
Employee retirement contributions paid by employer		26,595	1,066	27,661	
Retirement contributions		2,337,817	226,135	2,563,952	
Social Security and Medicare contributions		336,450	33,145	369,595	
Group insurance		1,277,328	57,416	1,334,744	
Contractual services		1,753,011	154,063	1,907,074	
Travel		10,969	1,266	12,235	
Commodities		15,556	823	16,379	
Printing		32,467	-	32,467	
Equipment		1,936	640	2,576	
Electronic data processing		5,195,597	450,639	5,646,236	
Telecommunications		41,289	3,123	44,412	
Automotive		6,242	15,097	21,339	
Nonrecurring refunds and distributions		16,746,873	(75)	16,746,798	
Repayments to general obligation bond retirement and interest fund		25,972,758	4,247,858	30,220,616	
Pensions, annuities and benefits		2,608,937,122	8,280,270	2,617,217,392	
Permanent improvements		76,628	106,311	182,939	
Refunds of prior calendar year contributions		79,369	-	79,369	
Refunds, not elsewhere classified		96,929,711	(9,805)	96,919,906	
Subtotal - Fund 0479		2,764,285,258	14,005,914	2,778,291,172	

Schedule of Appropriations, Expenditures and Lapsed Balances (Continued)
Appropriations for Fiscal Year 2019
Sixteen Months Ended October 31, 2019

Public Act 100-0586	Appropriations (Net of Transfers)	Expenditures Through June 30	Lapse Period Expenditures July 1 to October 31	Total Expenditures 16 Months Ended October31	Balances Lapsed October 31
Nonappropriated Funds (Continued)					
State Employees' Retirement System Excess Benefit Fund - 0788					
Pensions, annuities and benefits		$ 471,959	$ -	$ 471,959	
Pension Obligation Acceleration Bond Fund - 0825					
COLA buyout		29,578,288	-	29,578,288	
Total nonappropriated funds		2,794,335,505	14,005,914	2,808,341,419	
Grand Total, All Funds		$ 4,202,197,700	$ 912,209	$ 4,203,109,909	

Note 1: Appropriations, expenditures, and lapsed balances were obtained from the State Comptroller records as of October 31, 2019 and have been reconciled to System records.

Note 2: Expenditure amounts are vouchers approved for payment by the System and submitted to the State Comptroller for payment to the vendor.

State Employees' Retirement System of Illinois **Schedule 2**
Compliance Examination

Comparative Schedule of Net Appropriations,
Expenditures and Lapsed Balances
For the Years Ended June 30, 2019, 2018 and 2017

	Fiscal Year		
	2019	**2018**	**2017**
	P.A. 100-0586	**P.A. 100-0021 and P.A. 100-0586**	**Continuing Appropriation and Court Orders**
Appropriated Funds			
General Revenue Fund - 0001			
Appropriations	$ 1,407,895,850	$ 1,319,316,550	$ 1,309,399,650
Expenditures			
Continuing appropriation for pension contributions	269,788,800	214,257,100	1,309,399,650
Personal services	45,665	54,404	40,937
Appropriation for State's contribution	1,124,893,450	1,104,971,850	-
Social Security and Medicare contributions	3,402	4,058	3,018
Employee retirement contributions paid by employer	13,427	5,000	-
Contractual services	22,860	18,494	-
Electronic data processing	671	-	-
Telecommunications	215	293	-
Ordinary and contingent expenses	-	917	-
Total expenditures	1,394,768,490	1,319,312,116	1,309,443,605
Lapsed balances	$ 13,127,360	$ 4,434	$ -
Grand Total - Appropriated Funds			
Appropriations (Net of transfers)	$ 1,407,895,850	$ 1,319,316,550	$ 1,309,399,650
Total expenditures	1,394,768,490	1,319,312,116	1,309,443,605
Lapsed balances	$ 13,127,360	$ 4,434	$ -
Nonappropriated Funds			
State Employees' Retirement System Fund - 0479			
Expenditures			
Personal services	$ 4,945,482	$ 4,846,294	$ 5,154,430
Employee retirement contributions paid by employer	27,661	32,173	37,519
Retirement contributions	2,563,952	2,293,079	2,301,906
Social Security and Medicare contributions	369,595	366,255	380,726
Group insurance	1,334,744	1,315,672	1,511,110
Contractual services	1,907,074	1,630,291	1,267,540
Travel	12,235	16,004	14,557
Commodities	16,379	24,291	16,239
Printing	32,467	19,583	28,935
Equipment	2,576	22,004	16,119
Electronic data processing	5,646,236	5,638,319	5,909,670
Telecommunications	44,412	58,651	85,570
Automotive	21,339	11,323	11,603
Nonrecurring refunds and distributions	16,746,798	16,198,318	16,797,986
Payments to general obligation bond retirement and interest fund	30,220,616	27,938,971	24,323,737

Comparative Schedule of Net Appropriations, Expenditures and Lapsed Balances (Continued)
For the Years Ended June 30, 2019, 2018 and 2017

	Fiscal Year		
	2019	2018	2017
	P.A. 100-0586	P.A. 100-0021 and P.A. 100-0586	Continuing Appropriation and Court Orders
Nonappropriated Funds (Continued)			
State Employees' Retirement System Fund - 0479			
(Continued)			
Pensions, annuities and benefits	$ 2,617,217,392	$ 2,444,559,454	$ 2,304,686,635
Permanent improvements	182,939	155,180	28,762
Refunds, prior calendar year contributions	79,369	192,577	179,594
Refunds, not elsewhere classified	96,919,906	147,367,103	110,391,834
Total expenditures - Fund 0479	2,778,291,172	2,652,685,542	2,473,144,472
State Employees' Retirement Excess Benefit Fund - 0788			
Expenditures			
Pensions, annuities and benefits	471,959	524,293	532,331
Pension Obligation Acceleration Bond Fund - 0825			
Expenditures			
COLA buyout	29,578,288	-	-
Total nonappropriated expenditures	2,808,341,419	2,653,209,835	2,473,676,803
Grand total expenditures, all Funds	$ 4,203,109,909	$ 3,972,521,951	$ 3,783,120,408

Note 1: Expenditure authority, appropriations, expenditures, and lapsed balances were obtained from the State Comptroller records as of October 31, 2019, September 30, 2018 and September 30, 2017 and have been reconciled to System records.

Note 2: Expenditure amounts are vouchers approved for payment by the System and submitted to the State Comptroller for payment to the vendor.

Note 3: The State Pension Funds Continuing Appropriation Act (40 ILCS 15/1.2) provides a continuing annual appropriation for the State's Contributions to the System such that the State's total contributions are no less than the required State contributions lawfully submitted by the System under the Illinois Pension Code (40 ILCS 5/14-135.08) and the FY2015 Shortfall certified under Pension Code (40 ILCS 5/14-141(k)). The Circuit Court of Cook County in *People v. Munger* (15 CH 10243) ordered the State Comptroller, in the absence of enacted annual appropriations, to process and pay certified invoice vouchers from the System pursuant to this Statute. Therefore, the System's fiscal year 2017 appropriations for Fund 001 were established as the amount certified to the Governor and General Assembly as the State's required contribution for that fiscal year.

Note 4: The Circuit Court of St Clair County in *AFSCME Council 31 vs Munger* (15 CH 475) ordered the State Comptroller, in the absence of enacted annual appropriations, to "draw and issue warrants accomplishing payment of wages [for all State employees] at their normal rates of pay." As Public Act 100-0021 states appropriation authority granted by the General Assembly does not supersede any court order directing the expenditure of funds and states such payments are added to the appropriations granted by the General Assembly, the System was able to submit vouchers to pay its employees in full from Fund 001 without a maximum expenditures limit for personal service costs during fiscal year 2017.

Comparative Schedule of Cash Receipts and
Reconciliation of Cash Receipts to Deposits Remitted
to the State Comptroller
For the Years Ended June 30, 2019 and 2018

	2019	2018
State Employees' Retirement System - Fund 0479		
Participant contributions	$ 247,923,659	$ 239,120,050
Employer contributions (net of bond principal and interest)	790,672,590	760,578,728
General Revenue Fund / Pension Contribution Fund	1,341,576,972	1,265,863,611
Transfers from the Illinois State Board of Investment	357,000,000	310,000,000
Interest income on cash balances	4,481,947	1,431,724
Claims receivable payments	7,189,226	7,266,714
Installment payments	3,052,499	3,187,532
Buyout program bond proceeds	29,578,288	-
Other	368,091	641,614
Total cash receipts per System	2,781,843,272	2,588,089,973
Plus - Bond principal and interest payments collected and remitted to the State of Illinois	29,449,116	27,545,260
Less - Interest on cash balances	(4,481,947)	(1,431,724)
Less - Cancelled warrants and adjustment deposits classified by the Comptroller as reductions of expenditures	(7,036,183)	(7,668,977)
Plus - Intergovernmental transfers submitted to the Comptroller but not yet released / deposited into Trust Fund (Fund 479)**	58,658,194	54,588,076
Less - Prior year intergovernmental payment vouchers deposited into the Trust Fund (Fund 479) during the current fiscal year**	(54,588,076)	(54,558,339)
Less - Cash in Transit at End of Year	(254,233)	(300,882)
Plus - Cash in Transit at Beginning of Year	300,882	483,450
Less - Deposits in Transit at End of Year	(18,372)	(76,197)
Plus - Deposits in Transit at End of Year	76,197	68,498
Total cash receipts per State Comptroller's Records Fund 0479	$ 2,803,948,850	$ 2,606,739,138
State Employees' Retirement System Excess Benefit - Fund 0788		
Employer contirbutions	$ 437,336	$ 533,447
Interest income on cash balances	7,066	5,146
Total cash receipts per System	444,402	538,593
Less - Interest on cash balances	(7,066)	(5,146)
Total cash receipts per State Comptroller's Records Fund 0788	$ 437,336	$ 533,447
Grand Total - All Funds		
Total cash receipts per System	$ 2,782,287,674	$ 2,588,628,566
Less - Reconciling items from above	(66,385,877)	(64,041,265)
Plus - Reconciling items from above	88,484,389	82,685,284
Total cash receipts per State Comptroller's Records - All Funds	$ 2,804,386,186	$ 2,607,272,585

**Intergovernmental transfers are GRF employer contributions that are deposited in Fund 479. The Comptroller posts them to the Revenue Report when the GRF payment vouchers post. SERS does not post the deposit until the voucher has been released for payment.

Schedule of Changes in State Property
For the Year Ended June 30, 2019

	Beginning Balance	Additions	Deletions	Ending Balance
State Employees' Retirement System Trust Fund				
Land	$ 655,241	$ -	$ -	$ 655,241
Land improvements	315,779	-	-	315,779
Building	4,273,984	204,535	-	4,478,519
Furniture and equipment	2,765,037	87,408	(296,279)	2,556,166
Internally developed software	7,011,035	2,731,748	-	9,742,783
Total	15,021,076	3,023,691	(296,279)	17,748,488
Accumulated depreciation/amortization	(6,358,482)	(972,770)	293,159	(7,038,093)
Property and equipment - net	$ 8,662,594	$ 2,050,921	$ (3,120)	$ 10,710,395
Social Security Contribution Fund				
Furniture and equipment	$ 3,027	$ 660	$ -	$ 3,687

Note 1: This schedule has been reconciled to property reports (C-15 Agency Report of State Property) submitted to the Office of the State Comptroller.

Note 2: This summary schedule was prepared using State property records required by the Illinois Administrative Code. The capitalization policy in the code is different than the capitalization policy established by the Office of the State Comptroller for financial reporting in accordance with generally accepted accounting principles.

Comparative Schedule of Cash Balances
For the Years Ended June 30, 2019 and 2018

	2019	2018
State Treasury	$ 211,199,690	$ 205,301,464
Vouchers in transit	(61,256)	(528,049)
Deposits and cash in transit	150,646	82,444
	211,289,080	204,855,859
Petty cash fund	200	200
	$ 211,289,280	$ 204,856,059

The cash balance at fiscal year-end increased from the prior year due to the timing of receipts, as well as expenses which can fluctuate from fiscal year to fiscal year creating variances in cash balances from year to year.

Comparative Schedule of Changes in Investment Balances
For the Years Ended June 30, 2019 and 2018

Pursuant to Article 22A of the Illinois Pension Code, investments of the State Employees' Retirement System of the State of Illinois are managed by the Illinois State Board of Investment (ISBI) and are held in the ISBI Commingled Fund. Units of the ISBI Commingled Fund are issued to the member systems on the last day of the month based on the unit net asset value calculated as of that date. Net investment income of the ISBI Commingled Fund is allocated to each of the member systems on the last day of the month on the basis of percentage of accumulated units owned by the respective systems.

Investment portfolio management and performance are the direct responsibility of ISBI which establishes investment policy and strategy.

Comparison of the changes in the System's investments held in the ISBI Commingled Fund for the years ended June 30, 2019 and 2018 is summarized as follows:

	2019	2018
Balance at beginning of year, at fair value	$ 17,268,137,475	$ 16,322,605,336
Net cash added (withdrawn) to/(from) investments, net	(357,000,000)	(310,000,000)
	16,911,137,475	16,012,605,336
Investment income		
Interest, dividends and other	292,713,956	378,521,769
Expenses	(24,669,122)	(25,654,957)
	268,044,834	352,866,812
Net appreciation (depreciation) in fair value of investments		
Net realized gain on sales of investments	1,032,883,573	877,102,247
Net unrealized gain on investment	(187,017,382)	25,563,080
	845,866,191	902,665,327
Total net investment income	1,113,911,025	1,255,532,139
Balance at end of year, at fair value	$ 18,025,048,500	$ 17,268,137,475

Securities lending collateral decreased by $23.1 million in fiscal year 2019 compared to the previous fiscal year ($43,142,000 from $66,204,000). The State Treasurer lends securities to broker-dealers and other entities for collateral that will be returned for the same security in the future. Each year the Treasurer provides an allocation to the Comptroller to adjust each State Agency's financial statements to include their proportionate share of the securities lending transaction balances at year-end. Securities lending activity can vary from year to year depending on market conditions and the availability of securities to lend.

System Functions and Planning Program (Unaudited)

The State Employees' Retirement System of Illinois (System or SERS) was established on January 1, 1944 for the purpose of providing an orderly means whereby aged or disabled employees may be retired from active service, without prejudice or hardship, and to enable the employees to accumulate reserves for themselves and their dependents for old age, disability, death and termination of employment, thus affecting economy and efficiency in the administration of the State government.

The System is governed by Article 14 of the Illinois Pension Code (Chapter 40 of the Illinois Compiled Statutes). As of June 30, 2019, the System had approximately 62,026 active members and 74,589 benefit recipients.

The State Employees' Retirement System of Illinois is administered by a Board of Trustees of thirteen persons, which includes: a. the Comptroller, who shall be the Chairperson; b. six persons appointed by the Governor with the advice and consent of the Senate who may not be members of the System or hold an elective State office and who shall serve a term of 5 years, except that the terms of the initial appointees under the amendatory act of the 96th General Assembly shall be as follows: 3 for a term of 3 years and 3 for a term of 5 years; c. four active participants of the System having at least 8 years of creditable service, to be elected from the contributing members of the System; and d. two annuitants of the System who have been annuitants for at least one full year, to be elected from and by the annuitants of the System. The administration of the detailed affairs of the System is vested in the Executive Secretary, under the direction of the Board. General policy relating to the administration of the System is stated in the minutes of the Board meetings.

The System also administers the Social Security Enabling Act, Article 21 of the Illinois Pension Code, which makes coverage under the Federal Social Security Program available to employees of the State and its political subdivisions. The purpose of the Social Security Division of the System was to collect FICA contributions from employees, employing State agencies and various political subdivisions and remitting these contributions to the Federal government for calendar years prior to 1987. The responsibility of collecting and remitting Social Security contributions to the Federal government was transferred from this office to the Office of the Comptroller effective January 1, 1987. All adjustments for wages paid prior to January 1, 1987 were processed through this office. The remaining function of the Social Security Division is largely to act as a liaison between the Social Security Administration and local governments throughout the State. All necessary documentation pertaining to Section 218 agreements are initiated by the Division. The administrative expenses of the Social Security Division are appropriated by the General Assembly on a line item basis or authorized by court order.

The System is also responsible for the general administration of the State Employees Group Insurance Program as it applies to eligible annuitants. This includes enrollment, processing life insurance claims and other administrative details related to that program.

Program planning activities of the System are under the direct supervision of the Executive Secretary and involve coordination between the governing Board and other executive staff of the System. The current planning program identifies various operational projects for fiscal year 2019. The planning summary for each project includes the project scope and objectives, implementation phases and timing, resource application and expected benefits. Each project is assigned to a divisional level manager who acts as project leader during all implementation phases of the project. Implementation progress is reported to the Executive Secretary, who in turn reports such progress directly to the System's Board of Trustees.

System Functions and Planning Program (Unaudited) (Continued)

During FY 2019, the accelerated benefit ("buyout") programs created by Public Act 100-0587 were implemented by SERS. An interactive web tool to calculate eligible individuals' COLA or Total buyout amounts was developed and put into production. The tool allowed members to estimate the amount of their buyout and to see the impact on their future retirement benefits, providing the ability to make an informed decision based on individual circumstances. The COLA buyout was implemented on December 1, 2018 and approximately 22% of retiring members participated in the program. The buyout programs were financed from the sale of bonds and will continue through FY 2024 or the exhaustion of the bond proceeds.

The System's modernization of its business practices and computer systems continued to progress during FY 2019. Regarding the computer systems, the Service Purchase module and Accounts Receivable Module as well as the Annuitant Benefit Set Up module are nearing completion. The three projects are being tested as development continues to ensure that the functionality provides employees and members with accurate and timely results. Business practices in all areas of the System are being reviewed for improvements and efficiencies, as well.

Progress in Funding the System (Unaudited)

In August 1994, Senate Bill 533 was signed into law as Public Act 88-0593. This funding legislation, which became effective July 1, 1995, provides for a systematic 50-year funding plan with an ultimate goal to fund the cost of maintaining and administering the System at an actuarial funded ratio of 90%. In addition, the funding plan provided for a 15-year phase-in period to allow the State to adapt to the increased financial commitment. Now that the 15-year phase-in is complete, the State's contribution will remain at a level percentage of payroll for the next 35 years until the 90% funded level is achieved.

The funding legislation also provides for the establishment of a continuing appropriation of the required employer contributions to the System. This, in effect, removed the appropriation of those funds from the annual budgetary process.

Public Act 92-0566 became effective June 25, 2002, and provided an early retirement incentive (ERI) for those participants under the State Employees' Retirement System who terminated service before December 31, 2002 (or April 30, 2003, for certain cases). The increase in the unfunded actuarial accrued liability due to the ERI was originally to be amortized over ten years. The law, as modified, required that, in addition to any employer contributions required above, the State pay an amount equal to $70,000,000 for fiscal years 2004 and 2005; and in each fiscal year 2006 through 2015, a level-dollar payment based upon the increase in the present value of future benefits provided by the early retirement incentives amortized at 8.5 percent interest.

Public Act 93-0002 became law on April 7, 2003, and authorized the State to issue $10 billion in general obligation bonds for the purpose of making contributions to the retirement systems. On June 12, 2003, the State issued $10 billion in General Obligation Bonds, Pension Funding Series of June 2003.

Commencing with fiscal year 2005, the maximum State contribution under Public Act 93-0002 equals the State contribution that would have been required if the general obligation bond contribution had not been made, reduced – but not below zero – by the State's debt service on each system's respective portion of the full $10 billion of General Obligation Bond, Pension Funding Series of June 2003.

Progress in Funding the System (Unaudited) (Continued)

In June 2005, Public Act 94-0004 became law. This legislation further modified the funding plan by reducing the amount of required employer contributions for fiscal years 2006 and 2007 that would have otherwise been required under Public Act 88-0593, as modified by Public Act 93-0002. This act specified the appropriation amounts for fiscal years 2006 and 2007. The required State contributions for fiscal years 2008 through 2010 were then increased incrementally as a percentage of the participant payroll so that by fiscal year 2011, the State is contributing at the required level contribution rate to achieve the financing objective of a 90% funded status by the end of fiscal year 2045.

Public Act 96-0043 became law on July 15, 2009. As required under Public Act 96-0043, the method for determining the actuarial value of assets used to determine the employer contribution rate was changed beginning with the June 30, 2009 valuation. The method was changed from the market/fair value to a smoothed value. The smoothed value recognizes actuarial investment gains or losses for each fiscal year, beginning with FY09, in equal amounts over the ensuing five-year period.

Public Act 96-0889 added a lower tier of benefits for members who first contribute to SERS on or after January 1, 2011. When Public Act 96-1511 was enacted in January 2011, it required the System to assume that the provisions of Public Act 96-0889 were in effect on June 30, 2009 and to recalculate and recertify the fiscal year 2011 state funding requirement. Under this recertification, the fiscal year 2011 state contribution requirement was reduced by $95 million, from $1,193.3 million to $1,098.3 million.

Public Act 100-0023 became law on July 6, 2017. Public Act 100-0023 created a third tier of benefits (Tier 3), a hybrid plan combining a reduced defined benefit and a deferred contribution component for those members not participating in the social security system. Tier 3 has yet to be implemented and will require legislative changes. In addition Public Act 100-0023 directed the System to smooth the effects of changes in assumptions on the State's contribution by amortizing the effect of the changes over a five-year period retroactive to 2014. The System was also required to recalculate the State's fiscal year 2018 contribution resulting in a $298 million reduction in the State contribution from $2,328 million to $2,030 million.

On June 4, 2018 Public Act 100-0587 created two accelerated benefit payment options to be offered through June 30, 2021 to new annuitants and inactive vested members at a discounted cost to the System. The System was also required to recalculate its fiscal year 2019 contribution before June 30, 2019 to account for the estimated decreases in the fiscal year 2019 contribution afforded to the State by offering the accelerated benefit option resulting in a $20 million reduction on the State contribution from $2,166 million to $2,146 million.

Under the State's funding plan, the actuarial accrued liability of the System at June 30, 2019 amounted to approximately $48.7 billion. The actuarial value of assets (at smoothed value) at June 30, 2019 amounted to approximately $18.4 billion. The difference between the actuarial accrued liability and the actuarial value of assets of $30.3 billion reflects the unfunded actuarial accrued liability of the System at June 30, 2019 under the State's funding plan. The System had a funded ratio (based on the State's funding plan) of 37.8% at June 30, 2019.

Progress in Funding the System (Unaudited) (Continued)

For financial reporting purposes, the System adopted GASB Statement No. 67, *Financial Reporting for Pension Plans*, in the fiscal year ended June 30, 2014. GASB Statement No. 67 requires the use of the market value of assets rather than the actuarial value of assets (smoothed value) used under the State's funding plan in calculating the net pension liability. It also requires that the System use the entry age actuarial cost method rather than the projected unit costs method used under the State's funding plan for calculating the total pension liability. In addition, it requires the System use a blended rate of return of 6.47% combining the assumed rate of return of 6.75% and a municipal bond rate of 3.13% based on an index of 20-year general obligation bonds with an average AA rating for investments in the event the System's assets are exhausted in the future.

On June 30, 2019, the System reported for financial reporting purposes under GASB Statement No. 67 that the market value of assets was $18.5 billion. The difference between the total pension liability of $51.9 billion and the market value of assets was the net pension liability of $33.4 billion and the funded ratio was 35.6%. On June 30, 2018, the market value of assets was $17.5 billion. The difference between the System's June 30, 2018 total pension liability of $50.5 billion and the market value of assets was the June 30, 2018 net pension liability of $33.0 billion and the funded ratio was 34.6%.

The market value of the assets of the fund, that were available for benefits, increased from $17.5 billion at June 30, 2018 to $18.5 billion at June 30, 2019. This increase is due to the increased return on fund assets. The actuarial value of the assets of $18.4 billion at June 30, 2019, is $62.7 million lower than the market value of the assets due to the recognition of 100% of the actuarial gain in fiscal year 2015, 80% of the actuarial loss in fiscal year 2016, 60% of the actuarial gain in fiscal year 2017, 40% of the actuarial gain in 2018 and 20% of the actuarial gain in 2019.

State required contributions to the System for the next five fiscal years are noted in the table below.

Year Ended June 30	Required State Contribution (in millions)
2020	$ 2,293.1
2021	2,348.5
2022	2,452.5
2023	2,477.7
2024	2,512.0

Progress in Funding the System (Unaudited) (Continued)

The Schedule of the State's Net Pension Liability (in millions) for fiscal years ending June 30, 2019 and 2018 are noted in the table below.

	2019	2018
Total pension liability	$ 51,886	$ 50,519
Plan fiduciary net position	18,492	17,463
State's net pension liability (asset)	$ 33,394	$ 33,056
Plan fiduciary net position as a percentage of the total pension liability	35.64 %	34.57 %
Covered payroll	4,622	4,240
State's net pension liability (asset) as a percentage of covered payroll	722.56 %	779.61 %

The Schedule of State Contributions (in millions) for the fiscal years ending June 30, 2019 and 2018 are noted in the table below.

Year Ended June 30,	Actuarially Determined Contribution	Contributions Received	Contribution (Deficiency) Excess	Covered Payroll	Contributions Received as a Percentage of Covered Payroll
2019	$2,996.0	$2,274.9	$ (721.1)	$4,621.6	49.22%
2018	2,739.4	1,929.2	(810.2)	4,240.1	45.50%

Notes to the Schedule of State Contributions

Valuation date:	June 30, 2017
Notes:	Actuarially determined contribution rates are calculated as of June 30, which is 12 months prior to the beginning of the fiscal year in which the contributions will be made.

Progress in Funding the System (Unaudited) (Continued)

Methods and Assumptions as of the Valuation Date

Actuarial Cost Method:	Projected Unit Credit
Amortization Method:	Normal cost plus a level percentage of capped payroll amortization of the unfunded accrued liability.
Remaining Amortization Period:	23 years, closed
Asset Valuation Method:	5 year smoothed market
Inflation:	2.75%
Salary Increases:	Salary increase rates based on age-related productivity and merit rates plus inflation.
Post-Retirement Benefits:	Post-retirement benefit increases of 3.00%, compounded, for Tier 1 and 3.00% or one-half of the annual increase in the Consumer Price Index whichever is less, simple, for Tier 2.
Investment Rate of Return:	7.00%
Retirement Age:	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the June 30, 2014, valuation pursuant to an experience study of the period July 1, 2009 to June 30, 2013.
Mortality:	105% of the RP2014 Healthy Annuitant table, sex distinct with generational mortality improvements.

Analysis of Operations (Unaudited) (Continued)
For the Years Ended June 30, 2019 and 2018

Analysis of Significant Variations in Expenditures (Unaudited)

The System's expenditures, obtained from Schedule 2, have been analyzed for fluctuations greater than $1 million and 20% from the previous year.

	2019	2018	Increase (Decrease)	
Fund 0001:				
Continuing appropriation for retirement contributions	$ 269,788,800	$ 214,257,100	$ 55,531,700	(1)
Fund 0479:				
Refunds, not elsewhere classified	96,919,906	147,367,103	(50,447,197)	(2)

(1) The FY 2019 appropriation for GRF retirement contributions was not sufficient to meet the statutory contribution, increasing the needed reliance on the continuing appropriation for FY 2019 over the amount that had been needed in FY 2018.

(2) FY 2018 actuarial assumptions had to be smoothed over a 5-year period and the employer rate retroactively recertified to a lower rate creating refunds to employing state agencies. This was the primary cause of the variance between the FY 2018 Refunds, not elsewhere classified as compared to the FY 2019 Refunds, not elsewhere classified.

Analysis of Significant Variations in Cash Receipts (Unaudited)

The System's cash receipts, obtained from Schedule 4, have been analyzed for fluctuations greater than $1 million and 20% from the previous year.

	2019	2018	Increase	
Interest income on cash balances	$ 4,481,947	$ 1,431,724	$ 3,050,223	(1)
Buyout Program Bond Proceeds	29,578,288	-	29,578,288	(2)

(1) The additional interest on cash balances was a result of the necessity to carry larger cash balances to cover the increases in benefits paid due to the increased number of annuitants and the annual 3% COLA.

(2) The COLA/Total Buyout Program legislation was effective beginning in FY 2019, creating the reimbursement of bond proceeds to the pension funds covering the payouts to eligible members.

Analysis of Significant Lapse Period Spending (Unaudited)

The System's lapse period spending, obtained from Schedule 1, has been analyzed for spending greater than $200,000 and 20% in any appropriated line item.

There was no significant lapse period spending during fiscal year 2019.

Analysis of Contributions Receivable (Unaudited)

	2019	2018
Participants' contributions	$ 34,265,932	$ 16,945,386
Employing State agencies	242,634,706	79,595,654
Other accounts	16,358,747	5,274,892
Total receivables	$ 293,259,385	$ 101,815,932

Receivables included above represent amounts due from participants and the various State agencies employing participants for contributions. Other accounts include benefit overpayments as well as reimbursements from the State for the new COLA and pension buyout programs. Accounts are first analyzed by System personnel for collectability before being sent to the Attorney General's Office for a final determination.

Increased receivable balances in FY 2019 were due primarily to the payout of back wages due to unpaid step increases. These back wages were subject to retirement contributions, as well as employer contributions. Additionally, FY 2019 saw the initial buyout program applicants which included a receivable at June 30 of bond proceeds due to reimburse the System for eligible electing participants.

Money-Weighted Rate of Return (Unaudited)

Pursuant to Article 22A of the Illinois Pension Code, investments of the State Employees' Retirement System of Illinois are managed by the Illinois State Board of Investment (ISBI) and are held in the ISBI Commingled Fund. ISBI operates under a long-range investment plan with the objective to maximize the total rate of return. The objectives set forth are as follows:

- At least equal to the assumed actuarial interest rate, currently 6.75% per year.
- At least equal to the return of a composite benchmark of market indices in the same proportions as the Board's asset allocation policy targets.

The time-weighted rate of return of the ISBI Commingled Fund was 7.1% for fiscal year 2019. The ISBI's total fund performance was more than the composite benchmark of 7.0% for the year ended June 30, 2019.

Analysis of Operations (Unaudited) (Continued)
For the Years Ended June 30, 2019 and 2018

The annual money-weighted rate of return, net of investment expense, as of June 30, 2019 and 2018 was as follows:

	2019	2018
Money-weighted return*	7.1%	7.6%

* The money-weighted rate of return expresses the investment performance, net of investment expense, adjusted for changing amounts actually invested.

Average Number of System Employees (Unaudited)

System Employees' Retirement System Trust Fund

The average number of employees (not including the General Revenue Fund – Social Security Division) during the years ended June 30, 2019, 2018 and 2017 is summarized by functional classification as follows:

	2019	2018	2017
Executive and administrative	19	19	22
Accounting, bookkeeping and clerical	28	30	38
Other office employees	24	20	18
Electronic data processing	23	24	21
Total	94	93	99

Social Security Contribution Fund

The Social Security Contribution Fund had one employee for the years ended June 30, 2019, 2018 and 2017.

Comparison of Administrative Expenses to Total Expenses (Unaudited)

	2019	2018	2017
Total expenses			
Benefits	$ 2,601,306,593	$ 2,464,832,022	$ 2,328,620,783
Refunds of contributions, including transfers to reciprocating systems	24,133,508	27,469,348	26,608,011
Administrative expenses	14,978,852	15,257,526	15,957,439
	$ 2,640,418,953	$ 2,507,558,896	$ 2,371,186,233
Administrative expenses as a percentage of total expenses	0.6%	0.6%	0.7%

Analysis of Operations (Unaudited) (Continued)
For the Years Ended June 30, 2019 and 2018

Schedule of Contributions/Deductions and Effect on Investments (Unaudited)

Below is a schedule of contributions received by the System and expenditures of the System for benefits and operations and the effect of these transactions on the System's investments.

	2019	2018	2017
Contributions			
Participant Contributions	$ 275,675,175	$ 254,442,466	$ 251,610,974
Employer Contributions	2,274,925,279	1,929,175,044	1,798,348,440
Total Contributions	2,550,600,454	2,183,617,510	2,049,959,414
Deductions			
Retirement Benefits	2,368,679,904	2,240,156,641	2,111,021,041
Survivor Benefits	153,161,557	144,671,705	136,359,106
Disability Benefits	62,214,438	64,708,865	64,167,865
Lump-Sum Death Benefits	17,250,694	15,294,811	17,072,771
Refunds (including transfers to reciprocating systems)	24,133,508	27,469,348	26,608,011
Administrative Expenses	14,978,852	15,257,526	15,957,439
Total Deductions	2,640,418,953	2,507,558,896	2,371,186,233
Contributions in Excess of Deductions (Investments Used to Pay Benefits and Expenses)	$ (89,818,499)	$ (323,941,386)	$ (321,226,819)