

State of Illinois
Department of Revenue

Financial Audit
For the Year Ended June 30, 2010
Performed as Special Assistant Auditors
For the Auditor General, State of Illinois

State of Illinois
Department of Revenue

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**State of Illinois
Department of Revenue**

**Agency Officials
For the Year Ended June 30, 2010**

Director	Brian A. Hamer
Assistant Director	Vacant
Associate Director	Jodie Winnett
Chief of Staff	Lainie Krozel
Chief Fiscal Officer	David Hunt
Lottery	Jodie Winnett (Acting)
Liquor Control Commission	Gloria Materre (3/21/2011 – Current) Lainie Krozel (7/1/2009 – 3/20/2011)
Program Administrators:	
Administrative Services	Angela Oxley
Account Processing	O. Wayne Richie
Information Technology	Rebecca Moore
Tax Enforcement	John Chambers
Audit	Dan Hall
Policy and Communications Office	Michael Klemens
General Counsel	John McCaffrey
Chief Internal Auditor	Douglas Hathorn (8/2/2010 – Current)
Managers:	
Financial Control Bureau	Vacant (9/1/10 – Current) Larry Lascody, Jr. (7/1/2009 – 8/31/2010) Patti Walbaum
Returns and Deposit	
Administrative and Regulatory Shared Services Center:	
Director	Vacant (6/16/2010 – Current) Anne McElroy (12/1/2009 – 6/15/2010) David Hunt (7/1/2009 – 11/30/2009)
Chief Fiscal Officer	Dave Hunt (Acting 2/16/2011 – Current) Marvin Becker (7/1/2009 – 2/15/2011)
Customer Service Liaison	Vacant
Human Resources Director	Jeanine Hamm
Administrative Director	Vacant (12/1/2009 – Current) Angela Oxley (7/1/2009 – 11/30/2009)
Lottery Control Board Members (as of June 30, 2010)	Irv Smith Jonathan Stein Vacant Vacant Vacant
Liquor Control Board Members (as of June 30, 2010)	Stephen Schnorf Sam Esteban Amy Kurson Michael F. McMahon Donald G. O'Connell James Pandolfi Charles Scholz

**State of Illinois
Department of Revenue**

Financial Statement Report

Summary

The audit of the accompanying basic financial statements of the State of Illinois, Department of Revenue (Department), was performed by McGladrey & Pullen, LLP. Based on their audit, the auditors expressed an unqualified opinion on the Department's basic financial statements.

Summary of Findings

The auditors identified matters involving the Department's internal control over financial reporting that they considered to be material weaknesses and significant deficiencies. The material weakness is described in the accompanying Schedule listed in the table of contents as finding 10-1 *Fund Balance Deficit Exceeding \$2 Billion*. The significant deficiencies are described in the accompanying Schedule of Findings listed in the table of contents as findings 10-2 through 10-12.

Exit Conference

The findings and recommendations appearing in this report were discussed with Department personnel at an exit conference on May 19, 2011. Attending were:

Department of Revenue

Brian A. Hamer	Director
Jodie Winnett	Associate Director
John McCaffrey	General Counsel
Dave Hunt	Chief Fiscal Officer
Melinda Westwater	Chief Fiscal Officer, Shared Services
Rebecca Moore	Chief Information Officer
Douglas Hathhorn	Chief Internal Auditor
Jose Borjon	Audit Liaison
Angela Oxley	Administrative Services
Mike Klemens	Policy and Communications Office
Wayne Ritchie	Account Processing
Dan Hall	Audit Bureau

McGladrey and Pullen, LLP

Linda Abernethy	Partner
Sean Hickey	Audit Manager
William Sarb	Senior Associate

Office of the Auditor General

Candice Long	Audit Manager
Kathy Lovejoy	Audit Manager
Mike Maziarz	Audit Manager
Joe Butcher	Audit Manager
Jennifer Cicci	Audit Supervisor
Daniel Nugent	Audit Supervisor
Chase Kailer	State Auditor

The responses to the recommendations were provided by Brian A. Hamer, Director, in a letter dated May 27, 2011.



Independent Auditors' Report

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of Illinois, Department of Revenue, as of and for the year ended June 30, 2010, which collectively comprise the State of Illinois, Department of Revenue's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Illinois, Department of Revenue's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 2, the financial statements of the State of Illinois, Department of Revenue are intended to present the financial position and changes in financial position and cash flows, where applicable, of only that portion of the governmental activities, 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 Revenue. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2010, and its changes in financial position including cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 10, the Department has the following significant fund deficits as of June 30, 2010; General Fund, \$2.128 billion, and Personal Property Tax Replacement Fund (non-major special revenue fund) \$226.359 million. The Department's plan to eliminate these deficits is highly dependent on the collection and allocation of future State revenues to the Department.

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 of the State of Illinois, Department of Revenue, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 6, 2011 on our consideration of the State of Illinois, Department of Revenue's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Illinois, Department of Revenue's basic financial statements. The combining statements and schedules listed as supplementary information in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining statements and schedules listed as supplementary information in the table of contents have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

McGladrey & Pullen, LLP

Schaumburg, Illinois
June 6, 2011

State of Illinois
Department of Revenue

Statement of Net Assets
June 30, 2010 (Expressed in Thousands)

	Governmental Activities	Business-type Activities	Total
ASSETS			
Unexpended appropriations	\$ 17,303	\$ -	\$ 17,303
Cash equity in State Treasury	964,628	60,847	1,025,475
Cash and cash equivalents	3	6,518	6,521
Securities lending collateral equity with State Treasurer	34,373	-	34,373
Investments	-	559	559
Taxes receivable, net	1,080,467	-	1,080,467
Intergovernmental receivables	1,078	-	1,078
Other receivables, net of allowance of \$231 and \$6,660 for governmental and business-type activities, respectively	9,950	5,676	15,626
Due from Department fiduciary funds	-	120	120
Due from Department funds	(47,020)	47,020	-
Due from State funds	4,314	6	4,320
Due from State of Illinois component units	345,798	-	345,798
Inventories	477	657	1,134
Prepaid expenses	-	68	68
Capital assets being depreciated/amortized, net	5,612	411	6,023
Total assets	2,416,983	121,882	2,538,865
LIABILITIES			
Accounts payable and accrued liabilities	337,400	79,352	416,752
Income tax refunds payable	1,458,465	-	1,458,465
Intergovernmental payables	1,239,087	31	1,239,118
Obligations under securities lending of State Treasurer	34,373	-	34,373
Due to other Department fiduciary funds	57,968	-	57,968
Due to other State fiduciary funds	345	121	466
Due to other State funds	421,207	2,613	423,820
Due to State of Illinois component units	21	3	24
Unearned revenue	535,866	2,939	538,805
Long-term obligations:			
Portion due or payable within one year	1,100	132	1,232
Portion due or payable after one year	14,959	1,800	16,759
Total liabilities	4,100,791	86,991	4,187,782
NET ASSETS			
Invested in capital assets	5,612	411	6,023
Restricted for education	-	34,480	34,480
Unrestricted net assets	(1,689,420)	-	(1,689,420)
Total net assets	\$ (1,683,808)	\$ 34,891	\$ (1,648,917)

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

State of Illinois

Department of Revenue

Statement of Activities

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

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenues and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities						
General government	\$ 222,636	\$ 47,950	\$ 152	\$ (174,534)	\$ -	\$ (174,534)
Health and social services	159	-	-	(159)	-	(159)
Employment and economic development	3,750	-	-	(3,750)	-	(3,750)
Environment and business regulation	5,734	-	-	(5,734)	-	(5,734)
Intergovernmental-revenue sharing	4,098,953	-	-	(4,098,953)	-	(4,098,953)
Total governmental activities	4,331,232	47,950	152	(4,283,130)	-	(4,283,130)
Business-type activities						
Lottery	1,544,196	2,196,315	-		652,119	652,119
Total Department	\$ 5,875,428	\$ 2,244,265	\$ 152			
General revenues						
Taxes:						
Income taxes				10,192,581	-	10,192,581
Sales taxes				8,815,001	-	8,815,001
Motor fuel taxes				1,295,473	-	1,295,473
Public utility taxes				1,478,966	-	1,478,966
Other taxes				862,170	-	862,170
Interest and investment income				2,469	4	2,473
Other revenues (expenses)				21,904	(2)	21,902
Appropriations from State Resources				255,448	-	255,448
Lapsed appropriations				(46,993)	-	(46,993)
Receipts collected and transmitted to State Treasury				(18,515,839)	-	(18,515,839)
Amount of SAMS transfers-in				(2,361,486)	-	(2,361,486)
Amount of SAMS transfers-out				862,282	-	862,282
Capital transfers to/from other State agencies				(218)	-	(218)
Transfer of administration of funds to other State agencies				(105,119)	-	(105,119)
Transfers-in				670,611	-	670,611
Transfers-out				(519,729)	(652,133)	(1,171,862)
Total general revenues and transfers				2,907,521	(652,131)	2,255,390
Change in net assets				(1,375,609)	(12)	(1,375,621)
Net assets, July 1, 2009				(308,199)	34,903	(273,296)
Net assets, June 30, 2010				<u>\$ (1,683,808)</u>	<u>\$ 34,891</u>	<u>\$ (1,648,917)</u>

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

State of Illinois
Department of Revenue

Balance Sheet -

Governmental Funds

June 30, 2010 (Expressed in Thousands)

	General Fund	Nonmajor funds	Total Governmental Funds
ASSETS			
Unexpended appropriations	\$ 8,339	\$ 8,964	\$ 17,303
Cash equity in State Treasury	328,810	635,818	964,628
Cash and cash equivalents	-	3	3
Securities lending collateral equity with State Treasurer	-	34,373	34,373
Taxes receivable, net	788,118	292,349	1,080,467
Intergovernmental receivables	1,078	-	1,078
Other receivables, net of allowance of \$231	-	9,950	9,950
Due from other Department funds	123,487	601,533	725,020
Due from other State funds	-	4,314	4,314
Due from State of Illinois component units	-	345,798	345,798
Inventories	477	-	477
Total assets	\$ 1,250,309	\$1,933,102	\$ 3,183,411
LIABILITIES			
Accounts payable and accrued liabilities	\$ 294,715	\$ 42,685	\$ 337,400
Income tax refunds payable	1,458,465	-	1,458,465
Intergovernmental payables	2,043	1,237,044	1,239,087
Obligations under securities lending of State Treasurer	-	34,373	34,373
Due to other Department fiduciary funds	31,413	26,555	57,968
Due to other State fiduciary funds	-	345	345
Due to other Department funds	635,303	136,737	772,040
Due to other State funds	415,540	5,667	421,207
Due to State of Illinois component units	21	-	21
Unavailable revenue	137,806	27,330	165,136
Unearned revenue	403,259	132,607	535,866
Total liabilities	3,378,565	1,643,343	5,021,908
FUND BALANCES (DEFICITS)			
Reserved for:			
Encumbrances	37	203	240
Inventories	477	-	477
Long-term portion of due from other State of Illinois component units	-	345,798	345,798
Unreserved, undesignated			
General fund	(2,128,770)	-	(2,128,770)
Special revenue funds	-	(56,242)	(56,242)
Total fund balances (deficits)	(2,128,256)	289,759	(1,838,497)
Total liabilities and fund balances (deficits)	\$ 1,250,309	\$1,933,102	\$ 3,183,411

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

State of Illinois
Department of Revenue
Reconciliation of Governmental Funds Balance Sheet
to Statement of Net Assets
June 30, 2010
(Expressed in Thousands)

Total fund balances (deficits)-governmental funds	\$ (1,838,497)
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	5,612
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Revenues in the Statement of Activities that do not provide current financial resources are deferred in the funds.	165,136
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Some liabilities reported in the Statement of Net Assets do not require the use of current financial resources and therefore are not reported as liabilities in governmental funds. These activities consist of:	
Compensated absences	<u>(16,059)</u>

Net assets of governmental activities	<u><u>\$ (1,683,808)</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.

State of Illinois
Department of Revenue

**Statement of Revenues, Expenditures
and Changes in Fund Balances - Governmental Funds
For the Year Ended June 30, 2010 (Expressed in Thousands)**

	<u>General Fund</u>	<u>Nonmajor funds</u>	<u>Total Governmental Funds</u>
REVENUES			
Federal operating grants	\$ -	\$ 152	\$ 152
Income taxes	9,329,862	809,319	10,139,181
Sales taxes	6,385,901	2,408,460	8,794,361
Motor fuel taxes	-	1,302,000	1,302,000
Public utility taxes	1,078,293	400,187	1,478,480
Other taxes	635,152	234,114	869,266
Licenses and fees	6,415	38,737	45,152
Other charges for services	2,337	444	2,781
Interest and other investment income	-	2,469	2,469
Other	7,662	14,242	21,904
Total revenues	<u>17,445,622</u>	<u>5,210,124</u>	<u>22,655,746</u>
EXPENDITURES			
General government	119,088	102,931	222,019
Health and social services	-	159	159
Employment and economic development	-	3,750	3,750
Environment and business regulation	-	5,734	5,734
Intergovernmental	-	4,098,953	4,098,953
Capital outlays	5,136	52	5,188
Total expenditures	<u>124,224</u>	<u>4,211,579</u>	<u>4,335,803</u>
Excess (deficiency) of revenues over (under) expenditures	<u>17,321,398</u>	<u>998,545</u>	<u>18,319,943</u>
OTHER SOURCES (USES) OF FINANCIAL RESOURCES			
Appropriations from State resources	142,504	112,944	255,448
Lapsed appropriations	(14,552)	(32,441)	(46,993)
Receipts collected and transmitted to State Treasury	(16,351,384)	(2,164,455)	(18,515,839)
Amount of SAMS Transfers-in	(2,323,686)	(37,800)	(2,361,486)
Amount of SAMS Transfers-out	860,073	2,209	862,282
Transfer of administration of funds to other State agencies	(14,884)	(90,235)	(105,119)
Transfers-in	656,358	1,210,804	1,867,162
Transfers-out	(1,524,263)	(192,017)	(1,716,280)
Net other sources (uses) of financial resources	<u>(18,569,834)</u>	<u>(1,190,991)</u>	<u>(19,760,825)</u>
Net change in fund balances	(1,248,436)	(192,446)	(1,440,882)
Fund balances (deficits), July 1, 2009	(879,868)	482,205	(397,663)
Increase for changes in inventories	48	-	48
FUND BALANCES (DEFICITS), JUNE 30, 2010	<u>\$ (2,128,256)</u>	<u>\$ 289,759</u>	<u>\$ (1,838,497)</u>

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

State of Illinois
Department of Revenue
Reconciliation of Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to Statement of Activities
For the Year Ended June 30, 2010
(Expressed in Thousands)

Net change in fund balances	\$ (1,440,882)
Change in inventories	48
	(1,440,834)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation/amortization expense to allocate those expenditures over the life of the assets. This is the amount by which capital outlays exceeded depreciation/amortization in the current period.	4,233
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. This amount represents the increase in unavailable revenue over the prior year.	60,920
Some capital assets were transferred in from/out to other State agencies and, therefore, no proceeds were paid/received for the capital asset's value.	(218)
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. Decrease in compensated absences obligation	290

Change in net assets of governmental activities	\$ (1,375,609)
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The accompanying notes to the financial statements are an integral part of this statement.

State of Illinois
Department of Revenue
Statement of Net Assets -
Proprietary Funds
June 30, 2010 (Expressed in Thousands)

	Nonmajor Enterprise Fund State Lottery 0711
ASSETS	
Cash equity in State Treasury	\$ 60,847
Cash and cash equivalents	6,518
Investments, short-term	59
Other receivables, net of allowance of \$6,660	5,676
Due from other Department fiduciary funds	120
Due from other Department funds	79,895
Due from other State funds	6
Inventories	657
Prepaid expenses	68
Total current assets	153,846
Investments	500
Capital assets being depreciated, net	411
Total assets	154,757
LIABILITIES	
Accounts payable and accrued liabilities	79,352
Intergovernmental payables	31
Due to other State fiduciary funds	121
Due to other Department funds	32,875
Due to other State funds	2,613
Due to State of Illinois component units	3
Unearned revenue	2,939
Current portion of long-term obligations	132
Total current liabilities	118,066
Noncurrent portion of long-term obligations	1,800
Total liabilities	119,866
NET ASSETS	
Invested in capital assets, net of related debt	411
Restricted for education	34,480
Total net assets	\$ 34,891

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

State of Illinois
Department of Revenue

Statement of Revenues, Expenses and Changes in Fund
Net Assets - Proprietary Funds
For the Year Ended June 30, 2010 (Expressed in Thousands)

	Nonmajor Enterprise Fund State Lottery 0711
OPERATING REVENUES	
Charges for sales and services	\$ 2,191,421
Other	4,894
Total operating revenues	2,196,315
OPERATING EXPENSES	
Cost of sales and services	158,709
Prizes and claims	1,313,229
General and administrative	72,098
Depreciation	160
Total operating expenses	1,544,196
Operating income	652,119
NONOPERATING REVENUES (EXPENSES)	
Interest and investment income	4
Other non-operating expenses	(2)
Income before transfers	652,121
Transfers-out	(652,133)
Net income (loss)	(12)
Net assets, July 1, 2009	34,903
NET ASSETS, JUNE 30, 2010	\$ 34,891

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

State of Illinois

Department of Revenue

Statement of Cash Flows -

Proprietary Funds

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

	Nonmajor Enterprise Fund State Lottery 0711
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from sales and services (net of \$971,927 cash prizes paid by agents and \$110,219 commission retained by agents)	\$ 1,126,558
Cash payments to employees for services	(113,214)
Cash payments for lottery prizes	(344,034)
Cash receipts from other operating activities	4,894
Cash payments for other operating activities	(209)
Net cash provided by operating activities	<u>673,995</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers-out to other funds	(629,240)
Net cash (used) by noncapital financing activities	<u>(629,240)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(71)
Net cash (used) by capital and related financing activities	<u>(71)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends on investments	4
Net cash provided by investing activities	<u>4</u>
Net increase in cash and cash equivalents	44,688
Cash and cash equivalents, July 1, 2009	<u>22,677</u>
CASH AND CASH EQUIVALENTS, JUNE 30, 2010	<u><u>\$ 67,365</u></u>
Reconciliation of cash and cash equivalents to the statement of net assets:	
Total cash and cash equivalents per the statement of net assets	\$ 6,518
Add: Cash equity with State Treasurer	60,847
CASH AND CASH EQUIVALENTS, JUNE 30, 2010	<u><u>\$ 67,365</u></u>

State of Illinois

Department of Revenue

Statement of Cash Flows -

Proprietary Funds

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

	Nonmajor Enterprise Fund State Lottery 0711
Reconciliation of operating income to net cash provided by operating activities:	
OPERATING INCOME	\$ 652,119
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	160
Provision for uncollectible accounts	337
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	15,718
(Increase) decrease in due from other funds	48
(Increase) decrease in inventory	(209)
(Increase) decrease in prepaid expenses	10
Increase (decrease) in accounts payable and accrued liabilities	7,580
Increase (decrease) in intergovernmental payables	(8)
Increase (decrease) in due to other funds	(1,684)
Increase (decrease) in due to component units	3
Increase (decrease) in unearned revenues	(88)
Increase (decrease) in other liabilities	9
Total adjustments	<u>21,876</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 673,995</u>
 NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES	
Transfer of assets from (to) other State funds	(\$2)

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

State of Illinois
Department of Revenue
Statement of Fiduciary Net Assets
June 30, 2010 (Expressed in Thousands)

	<u>Investment Trust Fund</u>		<u>Deferred Prize Winners Trust Fund 0978</u>	<u>Agency Funds</u>
ASSETS				
Cash equity in State Treasury	\$	526	\$	406,370
Cash and cash equivalents		-		2,289
Securities lending collateral equity with State Treasurer		-		85,256
Fixed income investments		431,968		-
Taxes receivable, net		-		150,421
Other receivables		-		184
Due from other Department funds		-		57,968
Total assets		<u>432,494</u>		<u>\$ 702,488</u>
LIABILITIES				
Accounts payable and accrued liabilities		-	\$	6,102
Intergovernmental payables		-		608,804
Due to other Department funds		120		-
Obligations under securities lending of State Treasurer		-		85,256
Other liabilities		406		2,326
Total liabilities		<u>526</u>		<u>\$ 702,488</u>
NET ASSETS				
Held in trust for prizewinners		<u>431,968</u>		
Total net assets		<u>\$ 431,968</u>		

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

State of Illinois
Department of Revenue

Statement of Changes in Fiduciary Net Assets
For the Year Ended June 30, 2010 (Expressed in Thousands)

	Investment Trust Fund
	Deferred Prize Winners Trust Fund 0978
ADDITIONS:	
Investment earnings:	
Interest, dividends and other investment income	\$ 25,583
Net increase in the fair value of investments	2,939
Net investment income	<u>28,522</u>
Individual account transactions:	
Shares sold	34,780
Shares redeemed	(116,759)
Net individual account transactions	<u>(81,979)</u>
Net additions	(53,457)
Net assets, July 1, 2009	<u>485,425</u>
Net assets, JUNE 30, 2010	<u>\$ 431,968</u>

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

**STATE OF ILLINOIS
DEPARTMENT OF REVENUE**

Notes to Financial Statements
June 30, 2010

(1) Organization

The Department of Revenue (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 primarily from the General Revenue Fund 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 Department of Central Management Services, 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 Surety Bond Fund, the Lottery Agent Security Deposits Fund, and the Evidence Fund.

The Department is organized to provide for administering, collecting, enforcing and determining distribution of the taxes imposed by the State's major tax acts. The Department also administers and oversees the operations of the Illinois Lottery and the Liquor Control Commission. Effective July 1, 2009, the Department transferred all functions performed for the Illinois Racing Board and the Illinois Gaming Board and all associated powers, duties, rights and responsibilities to the Illinois Racing Board and Illinois Gaming Board, respectively, in accordance with the governor's office Executive Order 09-05.

(2) Summary of Significant Accounting Policies

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

(a) Financial Reporting Entity

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

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

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

**STATE OF ILLINOIS
DEPARTMENT OF REVENUE**

Notes to Financial Statements
June 30, 2010

(b) Basis of Presentation

The financial statements of the State of Illinois, Department of Revenue, are intended to present the financial position, changes in financial position, and cash flows of only that portion of the governmental activities, each major governmental fund of the State of Illinois, the enterprise fund, and the aggregate remaining fund information of the State of Illinois that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2010 the changes in financial position for the year then ended, and the cash flows in conformity with accounting principles generally accepted in the United States of America.

Government-wide Statements. The government-wide statement of net assets and statement of activities report the overall financial activity of the Department, excluding fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities of the Department. These statements distinguish between the *governmental* and *business-type* activities of the Department. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

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

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the Department and for each 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 all taxes, 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 and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

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

The Department administers the following major governmental fund (or portions thereof in the case of shared funds – see note 2(d)) of the State:

**STATE OF ILLINOIS
DEPARTMENT OF REVENUE**

Notes to Financial Statements
June 30, 2010

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

Additionally, the Department administers the following fund types:

Governmental Fund Types:

Special Revenue – These funds account for resources obtained from specific revenue sources that are legally restricted to expenditures for specified purposes. Special revenue funds account for, among other things, taxes levied with statutorily defined distributions, federal grant programs and other resources restricted as to purpose.

Proprietary Fund Types:

Enterprise – The State Lottery Fund accounts for operations of the State Lottery in which the net proceeds are used for the support of the State’s Common School Fund.

Fiduciary Fund Types:

Investment Trust – The Deferred Lottery Prizewinners Trust Fund accounts for the external portion of investment pools made on behalf of Lottery prizewinners.

Agency – These funds account for assets held by the Department, acting in the capacity of an agent, for distribution to other governmental units or designated beneficiaries.

(c) Measurement Focus and Basis of Accounting

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. Nonexchange transactions, in which the Department gives (or receives) value without directly receiving (or giving) equal value in exchange, include income and replacement, sales, motor fuel, and excise taxes. On an accrual basis, revenues from these taxes are recognized in the fiscal year in which the underlying exchange transaction occurs. Revenue from grants, entitlements, and similar items 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.

**STATE OF ILLINOIS
DEPARTMENT OF REVENUE**

Notes to Financial Statements
June 30, 2010

Significant revenue sources which are susceptible to accrual include income and replacement taxes, sales taxes, public utility taxes, motor fuel taxes, other taxes, tax penalties, and interest. The tax revenues are recorded by the State as taxpayers earn income (personal income tax, corporate income tax, and other taxes), as sales are made (sales taxes, public utility taxes, motor fuel taxes, and other taxes), or as the taxable event occurs (other taxes) net of estimated overpayments and amounts not expected to be collected. All other revenue sources including fines, licenses, and other miscellaneous revenues are considered to be measurable and available only when cash is received. Estimates are used to assign estimated tax payments received or refunds applied to future tax periods for individual and corporate income taxes to the proper fiscal year.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The State also has the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The State has elected not to follow subsequent private-sector guidance as it relates to the Department's operations.

(d) Shared Fund Presentation

The financial statement presentation for the General Revenue Fund, Education Assistance Fund, Motor Fuel Tax Fund, Public Utility Fund, Underground Storage Tank Fund, Illinois Gaming Law Enforcement Fund, Emergency Public Health Fund, Used Tire Management Fund, Natural Areas Acquisition Fund, Open Space Lands Acquisition and Development Fund, Common School Fund, Drycleaner Environment Response Trust Fund, Supplemental Low Income Energy Assistance Fund, Renewable Energy Resources Trust Fund, School Infrastructure Fund, International Tourism Fund, Capital Projects Fund, Build Illinois Fund, and Local Tourism Fund represent only the portion of the shared fund that can be directly attributed to the operations of the Department. Financial statements for total fund operations of the shared State funds are presented in the State of Illinois' Comprehensive Annual Financial Report.

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

Unexpended Appropriations

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

Appropriations from State Resources

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

Lapsed Appropriations

Lapsed appropriations are the legally adopted appropriations less net warrants issued for the 14 month period from July to August of the following year and re-appropriations to subsequent years according to SAMS records.

**STATE OF ILLINOIS
DEPARTMENT OF REVENUE**

Notes to Financial Statements
June 30, 2010

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 cash transfers made by the Office of the Comptroller in accordance with statutory provisions to the corresponding fund during the fiscal year per SAMS records in which the Department did not make a deposit into the State Treasury.

Amount of SAMS Transfers-Out

This "other financing source" account represents cash transfers made by the Office of the Comptroller in accordance with statutory provision from the corresponding fund during the fiscal year per SAMS records in which a legally adopted appropriation was not charged.

(e) *Eliminations*

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

(f) *Cash and Cash Equivalents*

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

(g) *Investments*

Investments are reported at fair value.

(h) *Inventories*

Inventories, consisting primarily of lottery tickets and postage and printing supplies, are valued at cost, principally on the first-in, first-out (FIFO) method. Significant inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

(i) *Prepaid items*

Payments made to vendors for services that will benefit periods beyond the date of this report are recorded as prepaid items on the government-wide statement of net assets.

**STATE OF ILLINOIS
DEPARTMENT OF REVENUE**

Notes to Financial Statements
June 30, 2010

(j) Interfund Transactions

The Department has the following types of interfund transactions between Department funds and funds of other State agencies:

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

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

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

(k) Capital Assets

Capital assets, which consist of equipment, automobiles and internally developed computer software, are reported at cost. Contributed assets are reported at estimated fair value at the time received. Capital assets are depreciated/amortized using the straight-line method.

The capitalization threshold for internally generated intangible assets is \$1 million, and the threshold for all other intangible assets is \$25,000. The capitalization threshold for capital assets other than intangible assets is \$5,000 and the estimated useful life is 3-15 years.

(l) Compensated Absences

The liability for compensated absences reported in the government-wide and proprietary fund statements of net assets 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 tax).

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 January 1, 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.

**STATE OF ILLINOIS
DEPARTMENT OF REVENUE**

Notes to Financial Statements
June 30, 2010

(m) Fund Balances

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties as to use for specific purposes.

(n) Net Assets

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

Invested in Capital Assets – This consists of capital assets, net of accumulated depreciation and amortization.

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

Unrestricted – This consists of net assets that do not meet the definition of "restricted" or "invested in capital assets".

(o) Use of Estimates

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

(p) New Accounting Pronouncements

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

(q) Future Adoption of GASB Statements

Effective for the year ending June 30, 2011 the Department will adopt GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which establishes fund balance classifications and clarifies the definitions of fund types. The Department has not yet determined the impact on the Department's financial statements as a result of adopting this statement.

(3) Deposits and Investments

The State Treasurer is the custodian of the Department's deposits and investments for funds maintained in the State Treasury. These amounts are classified as "Cash equity in State Treasury", and "Securities Lending Collateral Equity with State Treasurer" on the Statement of Net Assets and Balance Sheets. The Department independently manages deposits and investments maintained outside the State Treasury.

**STATE OF ILLINOIS
DEPARTMENT OF REVENUE**

Notes to Financial Statements
June 30, 2010

(a) Deposits

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

(b) Investments

As of June 30, 2010, the Department had the following investments outside of the State Treasury:

	Fair Value (Thousands)	Weighted Average Maturity (Years)
Enterprise Funds		
Annuities	\$ 559	5.947
Fiduciary Funds		
U.S. Treasury bonds	431,968	5.024

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: Prior to July 30, 1985, the Department did not have a formal investment policy that limited investment choices. Subsequent to July 30, 1985, the Department is limited to investing in direct obligations of the United States of America or backed by the full faith and credit of the United States of America. The Department's investments in annuities are not rated.

(c) Securities Lending Transactions

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

During fiscal year 2010, Deutsche Bank Group lent U.S. agency securities and received as collateral U.S. dollar denominated cash. Borrowers were required to deliver collateral for each loan equal to at least 100% of the aggregate market value of the loaned securities. Loans are marked to market daily. If the market value of collateral falls below 100%, the borrower must provide additional collateral to raise the market value to 100%.

The State Treasurer did not impose any restrictions during the fiscal year on the amount of the loans of available, eligible securities. In the event of borrower default, Deutsche Bank Group provides the State Treasurer with counterparty default indemnification. In addition, Deutsche Bank Group is obligated to indemnify the State Treasurer if Deutsche Bank Group loses any

**STATE OF ILLINOIS
DEPARTMENT OF REVENUE**

Notes to Financial Statements
June 30, 2010

securities, collateral or investments of the State Treasurer in Deutsche Bank Group's custody. There were no losses during the fiscal year resulting from a default of the borrowers or Deutsche Bank Group.

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

In accordance with GASB Statement No. 28, paragraph 9, the Office of the State Treasurer has allocated the assets and obligations at June 30, 2010 arising from securities lending agreements to the various funds of the State. The total allocated to the Department was \$119.629 million at June 30, 2010 including \$85.256 million allocated to agency funds administered by the Department.

(4) Taxes Receivable

Taxes receivable (amounts expressed in thousands) at June 30, 2010 are as follows:

	General Fund	Nonmajor Governmental Funds	Fiduciary Funds
Taxes receivable			
Income	\$ 711,666	\$ 69,298	\$ -
Sales	599,469	187,653	196,227
Motor fuel tax	-	130,238	-
Public utility	9,606	13,510	5,734
Other	46,513	15,607	8,305
Total taxes receivable	1,367,254	416,306	210,266
Less: Allowance for uncollectible accounts	579,136	123,957	59,845
Taxes receivable, net	<u>\$ 788,118</u>	<u>\$ 292,349</u>	<u>\$ 150,421</u>

**STATE OF ILLINOIS
DEPARTMENT OF REVENUE**

Notes to Financial Statements
June 30, 2010

(5) Interfund Balances and Activity

(a) Balances Due from/to Other Funds

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

Fund	Due from			Description/Purpose
	Other Department Fund	Other State Funds	Other Department Fiduciary Funds	
General	\$ 123,487	\$ -	\$ -	Due from other Department Funds pursuant to statutory tax allocations and for administrative cost reimbursements.
Nonmajor governmental funds	601,533	4,314	-	Due from other Department funds pursuant to statutory tax allocations, administrative cost reimbursements, and allocation of lottery proceeds and from other State fund for advances of services purchased.
Lottery	79,895	6	120	Due from General Fund for cumulative overpayment of lottery profits, other State funds for overallocation of lottery proceeds, and from other Department fiduciary funds for unclaimed lottery prizes.
Fiduciary Funds	57,968	-	-	Due from other Department funds pursuant to statutory tax allocations.
	<u>\$ 862,883</u>	<u>\$ 4,320</u>	<u>\$ 120</u>	

**STATE OF ILLINOIS
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Notes to Financial Statements
June 30, 2010

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

<u>Fund</u>	<u>Due to</u>				<u>Description/Purpose</u>
	<u>Other Department Fund</u>	<u>Other State Funds</u>	<u>Other Department Fiduciary Funds</u>	<u>Other State Fiduciary Funds</u>	
General	\$ 635,303	\$415,540	\$ 31,413	\$ -	Due to other Department funds pursuant to statutory tax allocations and cumulative overpayment of lottery profits, to other State funds for administrative expenses, and to other State fiduciary funds for payment of retirement benefits.
Nonmajor governmental funds	136,737	5,667	26,555	345	Due from other Department funds and other State funds pursuant to statutory tax and fee allocations, for administrative cost reimbursements, and for administrative expenses, other Department fiduciary funds pursuant to statutory tax allocations, and to other State fiduciary funds for payment of retirement benefits.
Lottery	32,875	2,613	-	121	Due to other State funds for allocation of lottery proceeds and other State fiduciary funds for retirement benefits.
Fiduciary Funds	120	-	-	-	Due to Lottery Fund for unclaimed lottery prizes.
	<u>\$ 805,035</u>	<u>\$423,820</u>	<u>\$ 57,968</u>	<u>\$ 466</u>	

**STATE OF ILLINOIS
DEPARTMENT OF REVENUE**

Notes to Financial Statements
June 30, 2010

(b) Transfers from/to Other Funds

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

Fund	Transfers in from		Description/Purpose
	Other Department Funds	Other State Funds	
General	\$ 656,358	\$ -	Transfer from Lottery Fund for lottery profits and other Department funds pursuant to statutory tax allocations.
Nonmajor governmental funds	1,200,585	10,219	Transfers from other Department funds and other State funds pursuant to statutory tax allocations.
	<u>\$ 1,856,943</u>	<u>\$ 10,219</u>	

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

Fund	Transfers out to		Description/Purpose
	Other Department Funds	Other State Funds	
General	\$ 1,018,975	\$ 505,288	Transfers to other Department funds and other State funds pursuant to statutory tax allocations.
Nonmajor governmental funds	190,146	1,871	Transfers to other Department funds and other State funds pursuant to statutory tax allocations. and to other State funds for budget shortfalls.
Lottery Fund	647,822	4,311	Transfers to General Fund to lottery profits and to other State funds for budget shortfalls.
	<u>\$ 1,856,943</u>	<u>\$ 511,470</u>	

Transfers do not include \$14,884 and \$90,235 for the general fund and nonmajor governmental funds, respectively, of the beginning fund balances/deficits transferred in accordance with Executive Order 09-05 effective July 1, 2009 as further explained in note 1.

**STATE OF ILLINOIS
DEPARTMENT OF REVENUE**

Notes to Financial Statements
June 30, 2010

(c) Balances Due from/ to State of Illinois Component Units

The Illinois Housing Development Authority owes the Department's nonmajor governmental funds \$345.798 million at June 30, 2010 for advances on loan programs.

The following balances (amounts expressed in thousands) at June 30, 2010 represent amounts due to State of Illinois Component Units for reimbursements for expenses incurred.

<u>Fund</u>	<u>Due To</u>	
General	University of Illinois	\$ 21
Nonmajor Proprietary Fund	Illinois Toll Highway	3

**STATE OF ILLINOIS
DEPARTMENT OF REVENUE**

Notes to Financial Statements
June 30, 2010

(6) Capital Assets

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

	Balance July 1, 2009	Additions	Deletions	Net Transfers	Balance June 30, 2010
Governmental activities:					
Capital assets being depreciated/amortized:					
Equipment	\$ 6,424	\$ 74	\$ -	\$ (1,080)	\$ 5,418
Internally generated computer software	-	5,114	-	-	5,114
Less: accumulated depreciated/amortization:					
Equipment	4,827	444	-	(862)	4,409
Internally generated computer software	-	511	-	-	511
 Governmental activity capital assets, net	 \$ 1,597	 \$ 4,233	 \$ -	 \$ (218)	 \$ 5,612

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

General government	<u>\$ 955</u>
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	Balance July 1, 2009	Additions	Deletions	Net Transfers	Balance June 30, 2010
Business-type activities:					
Capital assets being depreciated/amortized:					
Equipment	\$ 2,327	\$ 71	\$ -	\$ (256)	\$ 2,142
Less: accumulated depreciated/amortization:					
Equipment	1,825	160	-	(254)	1,731
 Business-type activity capital assets, net	 \$ 502	 \$ (89)	 \$ -	 \$ (2)	 \$ 411

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Notes to Financial Statements
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(7) Long-Term Obligations

(a) Changes in Long-Term Obligations

Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2010 were as follows:

	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2011	Amounts Due Within One Year
Governmental activities:					
Compensated absences	\$ 16,349	\$ 9,897	\$ 10,187	\$ 16,059	\$ 1,100
Total governmental activities	\$ 16,349	\$ 9,897	\$ 10,187	\$ 16,059	\$ 1,100
Business-type activities:					
Compensated absences	\$ 1,364	\$ 847	\$ 838	\$ 1,373	\$ 73
Obligations to Lottery prizewinners	966	-	407	559	59
Total business-type activities	\$ 2,330	\$ 847	\$ 1,245	\$ 1,932	\$ 132

Compensated absences will be liquidated by the applicable governmental funds that account for the salaries and wages of the related employees.

(b) Obligations to Lottery Prize Winners

The State has obligations to certain lottery prize winners for awards payable in annual installments ranging from nineteen years to the life of the prize winner, with the first payment being made after the claim is presented for payment. In addition, the State has fulfilled its obligations for certain other prize winners through the purchase of annuities under group contracts.

For certain prize winners, annuities were purchased in the name of the State for which the State has retained the rights of ownership. Effective July 30, 1985, State law provides that the State Treasurer, with the consent of the Director of Revenue, may contract to invest in securities, which provide payments corresponding to the Lottery's obligation to these winners. The present value of these annuities and the related liabilities owed to prize winners, \$559 thousand, have been reported in the financial statements of the State Lottery Fund, a nonmajor enterprise fund.

In addition to the prize obligations discussed above, the State has provided for other payments corresponding to the Lottery's obligation to prize winners through the purchase of direct obligations of the federal government, primarily in the form of United States Treasury zero coupon bonds. As established by State law, such securities shall be maintained in the Deferred Lottery Prize Winners Trust Fund, a special trust fund separate and apart from all public money or funds of the State. These investments are purchased in amounts to provide for annual annuity payments to the prize winner(s) of each qualifying individual drawing. Since these monies are invested by the State on behalf of

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Notes to Financial Statements
June 30, 2010

external legally separate entities (the prize winners), with specific investments being acquired for these individual entities for which the income from and changes in the value of the investments affect only the prize winners for whom they were acquired, in accordance with the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, the Deferred Lottery Prize Winners Trust Fund is reported as an investment trust fund. The investments of the fund were \$431.968 million at June 30, 2010, and the net assets are reported as held in trust for prizewinners.

(8) Pension Plan

Substantially all of the Department's full-time employees who are not eligible for participation in another state-sponsored retirement plan participate in the State Employees' Retirement System (SERS), which is a pension trust fund in the State of Illinois reporting entity. The SERS is a single-employer defined benefit public employee retirement system (PERS) in which State employees participate, except those covered by the State Universities, Teachers', General Assembly, and Judges' Retirement Systems. The financial position and results of operations of the SERS are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2010. The SERS issues a separate CAFR that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois, 62794-9255.

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

The Department pays employer retirement contributions based upon an actuarially determined percentage of their payrolls. For fiscal year 2010, the employer contribution rate was 28.377%. Effective for pay periods beginning after December 31, 1991, the State opted to pay the employee portion of retirement for most State agencies (including the Department) with employees covered by the State Employees' and Teachers' Retirement Systems. However, effective with the fiscal year 2004 budget, the State opted to stop paying the portion or a part of the portion of retirement for many State agencies (including the Department) for certain classes of employees covered by the State Employees' and Teachers' Retirement Systems. The pickup, when applicable, is subject to sufficient annual appropriations and those employees covered may vary across employee groups and State agencies.

**STATE OF ILLINOIS
DEPARTMENT OF REVENUE**

Notes to Financial Statements
June 30, 2010

(9) Post-employment Benefits

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

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

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

(10) Fund Deficits

The General Fund (\$2.128 billion) and the Illinois Gaming Law Enforcement (\$473 thousand), State & Local Sales Tax Reform (\$1.321 million), County & Mass Transit (\$1.792 million), Local Government Tax (\$7.035 million), Illinois Tax Increment (\$1.482 million), and Personal Property Tax Replacement Fund (\$226.359 million), nonmajor governmental funds, had fund deficits at June 30, 2010. The Department intends to eliminate the fund deficit in the General Fund through the collection and allocation of future State revenues to the Department. The Department intends to eliminate the fund deficits in the State & Local Sales Tax Reform, County & Mass Transit, and the Local Government Tax funds by future recognition of earned but unavailable revenues. The Department intends to eliminate the fund deficit of the Illinois Gaming Law Enforcement, Illinois Tax Increment, and the Personal Property Tax Replacement funds through future revenues earned.

**STATE OF ILLINOIS
DEPARTMENT OF REVENUE**

Notes to Financial Statements
June 30, 2010

(11) Risk Management

The Department is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; workers compensation and natural disasters. The State retains the risk of loss (i.e., self insured) for these risks.

The Department's risk management activities are financed through appropriations to the Illinois Department of Central Management Services and are accounted for in the general fund of the State. The claims are not considered to be a liability of the Department; and accordingly, have not been reported in the Department's financial statements for the year ended June 30, 2010.

(12) Commitments and Contingencies

(a) Operating leases

The Department leases certain office space under annual agreements which require the Department to make minimum lease payments. Rent expense under operating leases was \$10.886 million for the year ended June 30, 2010.

(b) Litigation

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

(13) Subsequent Events

Effective August 16, 2010, a tax amnesty program was signed into law covering tax debts incurred between July 1, 2002 and June 30, 2009. The amnesty payment period was October 1, 2010 through November 8, 2010. The effect on future Departmental financial statements is not known.

Effective January 13, 2011, a tax increase bill was signed into law raising the personal income tax rate from 3 percent to 5 percent and the corporate tax rate from 4.8 percent to 7 percent. Both rates were adjusted to carry through until 2015, when they would drop to 3.25 percent and 5.25 percent, respectively.

State of Illinois

Department of Revenue

Combining Schedule of Accounts

General Fund

June 30, 2010 (Expressed in Thousands)

	General Revenue Account 0001	Common School Special 0005	Education Assistance 0007	Income Tax Refund 0278	Common School 0412	Capital Projects 0694	Eliminations	Total
ASSETS								
Unexpended appropriation	\$ 8,339	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,339
Cash equity in State Treasury	171,380	97,977	5,770	46,658	7,023	2	-	328,810
Taxes receivable, net	626,511	96,622	20,015	41,453	1,351	2,166	-	788,118
Intergovernmental receivables	-	-	-	1,078	-	-	-	1,078
Due from other Department funds	396	-	-	90,216	-	32,875	-	123,487
Inventories	477	-	-	-	-	-	-	477
Total assets	\$ 807,103	\$ 194,599	\$ 25,785	\$ 179,405	\$ 8,374	\$ 35,043	\$ -	\$ 1,250,309
LIABILITIES								
Accounts payable and accrued liabilities	\$ 225,182	\$ 67,315	\$ -	\$ -	\$ 2,218	\$ -	\$ -	\$ 294,715
Income tax refunds payable	-	-	-	1,458,465	-	-	-	1,458,465
Intergovernmental payables	2,043	-	-	-	-	-	-	2,043
Due to other Department fiduciary funds	31,413	-	-	-	-	-	-	31,413
Due to other Department funds	555,408	-	-	-	79,895	-	-	635,303
Due to other State funds	415,540	-	-	-	-	-	-	415,540
Due to State of Illinois Component Units	21	-	-	-	-	-	-	21
Unavailable revenue	107,810	10,836	6,723	12,216	204	17	-	137,806
Unearned revenue	291,425	-	22,949	88,885	-	-	-	403,259
Total liabilities	1,628,842	78,151	29,672	1,559,566	82,317	17	-	3,378,565
FUND BALANCES (DEFICITS)								
Reserved for:								
Encumbrances	37	-	-	-	-	-	-	37
Inventories	477	-	-	-	-	-	-	477
Unreserved, undesignated	(822,253)	116,448	(3,887)	(1,380,161)	(73,943)	35,026	-	(2,128,770)
Total fund balances (deficits)	(821,739)	116,448	(3,887)	(1,380,161)	(73,943)	35,026	-	(2,128,256)
Total liabilities and fund balances (deficits)	\$ 807,103	\$ 194,599	\$ 25,785	\$ 179,405	\$ 8,374	\$ 35,043	\$ -	\$ 1,250,309

State of Illinois

Department of Revenue

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

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

	General Revenue Account 0001	Common School Special 0005	Education Assistance 0007	Income Tax Refund 0278	Common School 0412	Capital Projects 0694	Eliminations	Total
REVENUES								
Income taxes	\$ 9,077,832	\$ -	\$ 714,186	\$ (462,156)	\$ -	\$ -	\$ -	\$ 9,329,862
Sales taxes	4,753,353	1,593,548	-	-	-	39,000	-	6,385,901
Public utility taxes	977,495	-	-	-	100,798	-	-	1,078,293
Other taxes	499,309	-	-	-	116,367	19,476	-	635,152
Licenses and fees	6,190	-	-	-	225	-	-	6,415
Other charges for services	2,337	-	-	-	-	-	-	2,337
Other	7,662	-	-	-	-	-	-	7,662
Total revenues	15,324,178	1,593,548	714,186	(462,156)	217,390	58,476	-	17,445,622
EXPENDITURES								
General government	144,593	-	-	(25,505)	-	-	-	119,088
Capital outlay	5,136	-	-	-	-	-	-	5,136
Total expenditures	149,729	-	-	(25,505)	-	-	-	124,224
Excess (deficiency) of revenues over (under) expenditures	15,174,449	1,593,548	714,186	(436,651)	217,390	58,476	-	17,321,398
OTHER SOURCES (USES) OF FINANCIAL RESOURCES								
Appropriations from State resources	142,504	-	-	-	-	-	-	142,504
Lapsed appropriations	(14,552)	-	-	-	-	-	-	(14,552)
Receipts collected and transmitted to State Treasury	(15,349,180)	-	(720,497)	-	(225,382)	(56,325)	-	(16,351,384)
Amount of SAMS transfers-in	(2,879)	-	-	-	(2,320,807)	-	-	(2,323,686)
Amount of SAMS transfers-out	860,073	-	-	-	-	-	-	860,073
Transfer of administration of funds to other State agencies	(1,500)	-	(13,384)	-	-	-	-	(14,884)
Transfers-in	2,251	-	-	6,285	2,310,754	32,875	(1,695,807)	656,358
Transfers-out	(1,523,854)	(1,695,807)	-	(409)	-	-	1,695,807	(1,524,263)
Net other sources (uses) of financial resources	(15,887,137)	(1,695,807)	(733,881)	5,876	(235,435)	(23,450)	-	(18,569,834)
Net change in fund balances	(712,688)	(102,259)	(19,695)	(430,775)	(18,045)	35,026	-	(1,248,436)
Fund balances (deficits), July 1, 2009	(109,099)	218,707	15,808	(949,386)	(55,898)	-	-	(879,868)
Increase for changes in inventories	48	-	-	-	-	-	-	48
FUND BALANCES (DEFICITS), JUNE 30, 2010	\$ (821,739)	\$ 116,448	\$ (3,887)	\$ (1,380,161)	\$ (73,943)	\$ 35,026	\$ -	\$ (2,128,256)

State of Illinois
Department of Revenue
Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2010 (Expressed in Thousands)

	Special Revenue								
	Motor Fuel Tax 0012	Public Utility 0059	Underground Storage Tank 0072	Illinois Gaming Law Enforcement 0085	IDOR Federal Trust 0140	Rental Housing Support Program 0150	State & Local Sales Tax Reform 0186	RTA Occupation and Use Tax Replacement 0187	County & Mass Transit 0188
ASSETS									
Unexpended appropriations	\$ 8,897	\$ -	\$ 40	\$ 27	\$ -	\$ -	\$ -	\$ -	\$ -
Cash equity in State Treasury	859	-	23	25	37	9,636	46,947	-	61,365
Cash and cash equivalents	-	-	-	-	-	-	-	-	-
Securities lending collateral equity with State Treasurer	-	-	-	-	-	-	-	-	-
Taxes receivable, net	101,332	5	6,515	563	-	-	13,561	-	18,172
Other receivables, net	-	5,500	-	-	-	-	-	-	-
Due from other Department funds	-	-	-	-	-	-	-	5,760	-
Due from other State funds	-	-	-	-	-	-	-	-	-
Due from State of Illinois component units	-	-	-	-	-	-	-	-	-
Total assets	\$ 111,088	\$ 5,505	\$ 6,578	\$ 615	\$ 37	\$ 9,636	\$ 60,508	\$ 5,760	\$ 79,537
LIABILITIES									
Accounts payable and accrued liabilities	\$ 10,855	\$ -	\$ 24	\$ 38	\$ 1	\$ 3,752	\$ -	\$ -	\$ -
Intergovernmental payables	2,344	-	232	1,033	-	-	15,008	5,760	52,982
Obligations under securities lending of State Treasurer	-	-	-	-	-	-	-	-	-
Due to other Department fiduciary funds	-	-	-	-	-	-	-	-	26,555
Due to other State fiduciary funds	181	-	8	4	-	-	-	-	-
Due to other Department funds	-	-	-	-	-	-	45,500	-	-
Due to other State funds	4,352	-	6	5	1	-	-	-	-
Unavailable revenue	3,160	5	265	8	-	-	1,321	-	1,792
Unearned revenue	-	-	-	-	-	-	-	-	-
Total liabilities	20,892	5	535	1,088	2	3,752	61,829	5,760	81,329
FUND BALANCES (DEFICITS)									
Reserved for:									
Encumbrances	-	-	-	1	-	128	-	-	-
Long-term portion of due from State of Illinois component units	-	-	-	-	-	-	-	-	-
Unreserved, undesignated	90,196	5,500	6,043	(474)	35	5,756	(1,321)	-	(1,792)
Total fund balances (deficits)	90,196	5,500	6,043	(473)	35	5,884	(1,321)	-	(1,792)
Total liabilities and fund balances (deficits)	\$ 111,088	\$ 5,505	\$ 6,578	\$ 615	\$ 37	\$ 9,636	\$ 60,508	\$ 5,760	\$ 79,537

State of Illinois
Department of Revenue
Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2010 (Expressed in Thousands)

	Special Revenue						
	Local Government Tax 0189	Illinois Sports Facility 0225	Emergency Public Health 0240	Debt Collection 0279	Illinois Tax Increment 0281	Illinois Affordable Housing Trust 286	Used Tire Management 0294
ASSETS							
Unexpended appropriations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cash equity in State Treasury	263,803	7,819	-	49	3,011	12,154	-
Cash and cash equivalents	-	-	-	-	-	-	-
Securities lending collateral equity with State Treasurer	-	-	-	-	663	3,786	-
Taxes receivable, net	65,598	-	-	-	1,107	-	-
Other receivables, net	-	-	773	-	1	8	2,943
Due from other Department funds	-	625	-	-	-	-	-
Due from other State funds	-	-	-	-	-	417	-
Due from State of Illinois component units	-	-	-	-	-	345,798	-
Total assets	\$ 329,401	\$ 8,444	\$ 773	\$ 49	\$ 4,782	\$ 362,163	\$ 2,943
LIABILITIES							
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ -	917	1,802	\$ -
Intergovernmental payables	329,401	8,444	-	-	4,556	-	-
Obligations under securities lending of State Treasurer	-	-	-	-	663	3,786	-
Due to other Department fiduciary funds	-	-	-	-	-	-	-
Due to other State fiduciary funds	-	-	-	-	3	-	-
Due to other Department funds	-	-	-	-	-	-	396
Due to other State funds	-	-	-	-	2	-	-
Unavailable revenue	7,035	-	15	-	123	-	61
Unearned revenue	-	-	-	-	-	-	-
Total liabilities	336,436	8,444	15	-	6,264	5,588	457
FUND BALANCES (DEFICITS)							
Reserved for:							
Encumbrances	-	-	-	-	-	-	-
Long-term portion of due from State of Illinois component units	-	-	-	-	-	345,798	-
Unreserved, undesignated	(7,035)	-	758	49	(1,482)	10,777	2,486
Total fund balances (deficits)	(7,035)	-	758	49	(1,482)	356,575	2,486
Total liabilities and fund balances (deficits)	\$ 329,401	\$ 8,444	\$ 773	\$ 49	\$ 4,782	\$ 362,163	\$ 2,943

State of Illinois
 Department of Revenue
 Combining Balance Sheet -
 Nonmajor Governmental Funds
 June 30, 2010 (Expressed in Thousands)

Special Revenue

	Natural Areas Acquisition 0298	Open Space Lands Acquisition & Development 0299	Tax Compliance and Administration 0384	Predatory Lending Database Program 0478	Local Government Distributive 0515	Drycleaner Environmental Response 0548	Supplemental Low Income Energy Assistance 0550	Renewable Energy Resource 0564
ASSETS								
Unexpended appropriations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cash equity in State Treasury	88	205	535	2,050	29	1	1	-
Cash and cash equivalents	-	-	-	-	-	-	-	-
Securities lending collateral equity with State Treasurer	-	-	-	-	-	-	-	-
Taxes receivable, net	-	-	484	-	-	143	8,048	-
Other receivables, net	-	-	159	-	-	-	-	502
Due from other Department funds	-	-	-	-	585,698	-	-	-
Due from other State funds	-	-	-	-	-	-	-	-
Due from State of Illinois component units	-	-	-	-	-	-	-	-
Total assets	\$ 88	\$ 205	\$ 1,178	\$ 2,050	\$ 585,727	\$ 144	\$ 8,049	\$ 502
LIABILITIES								
Accounts payable and accrued liabilities	\$ -	\$ -	196	1,100	\$ -	\$ -	\$ -	\$ -
Intergovernmental payables	-	-	5	-	585,102	-	-	-
Obligations under securities lending of State Treasurer	-	-	-	-	-	-	-	-
Due to other Department fiduciary funds	-	-	-	-	-	-	-	-
Due to other State fiduciary funds	-	-	23	-	-	-	-	-
Due to other Department funds	-	-	-	-	625	-	-	-
Due to other State funds	-	-	29	-	-	-	-	-
Unavailable revenue	-	-	133	-	-	-	-	-
Unearned revenue	-	-	-	-	-	-	-	-
Total liabilities	-	-	386	1,100	585,727	-	-	-
FUND BALANCES (DEFICITS)								
Reserved for:								
Encumbrances	-	-	1	-	-	-	-	-
Long-term portion of due from State of Illinois component units	-	-	-	-	-	-	-	-
Unreserved, undesignated	88	205	791	950	-	144	8,049	502
Total fund balances (deficits)	88	205	792	950	-	144	8,049	502
Total liabilities and fund balances (deficits)	\$ 88	\$ 205	\$ 1,178	\$ 2,050	\$ 585,727	\$ 144	\$ 8,049	\$ 502

State of Illinois
 Department of Revenue
 Combining Balance Sheet -
 Nonmajor Governmental Funds
 June 30, 2010 (Expressed in Thousands)

	Special Revenue									
	School	International	Municipal	Personal	Dram	Senior	Build	Local	Evidence	Total
	Infrastructure	Tourism	Economic	Property Tax	Shop	Citizen Real	Illinois	Tourism	Fund	
0568	0621	0650	0802	0821	Deferred Tax	0930	0960	0969	1369	
ASSETS										
Unexpended appropriations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,964
Cash equity in State Treasury	3,186	613	102	206,219	2,651	1,200	12,120	1,090	-	635,818
Cash and cash equivalents	-	-	-	-	-	-	-	-	3	3
Securities lending collateral equity with State Treasurer	-	-	29	29,895	-	-	-	-	-	34,373
Taxes receivable, net	572	1,020	1	39,769	-	-	33,668	1,791	-	292,349
Other receivables, net	-	-	-	64	-	-	-	-	-	9,950
Due from other Department funds	-	-	-	-	-	-	9,450	-	-	601,533
Due from other State funds	-	-	47	-	150	3,700	-	-	-	4,314
Due from State of Illinois component units	-	-	-	-	-	-	-	-	-	345,798
Total assets	\$ 3,758	\$ 1,633	\$ 179	\$ 275,947	\$ 2,801	\$ 4,900	\$ 55,238	\$ 2,881	\$ 3	\$ 1,933,102
LIABILITIES										
Accounts payable and accrued liabilities	\$ 2,100	\$ 17	\$ -	\$ 5,734	\$ 57	\$ -	\$ 16,061	\$ 31	\$ -	\$ 42,685
Intergovernmental payables	-	-	150	231,911	-	116	-	-	-	1,237,044
Obligations under securities lending of State Treasurer	-	-	29	29,895	-	-	-	-	-	34,373
Due to other Department fiduciary funds	-	-	-	-	-	-	-	-	-	26,555
Due to other State fiduciary funds	-	-	-	125	1	-	-	-	-	345
Due to other Department funds	-	-	-	90,216	-	-	-	-	-	136,737
Due to other State funds	-	-	-	1,245	27	-	-	-	-	5,667
Unavailable revenue	228	27	-	10,573	-	-	2,557	27	-	27,330
Unearned revenue	-	-	-	132,607	-	-	-	-	-	132,607
Total liabilities	2,328	44	179	502,306	85	116	18,618	58	-	1,643,343
FUND BALANCES (DEFICITS)										
Reserved for:										
Encumbrances	-	-	-	-	73	-	-	-	-	203
Long-term portion of due from State of Illinois component units	-	-	-	-	-	-	-	-	-	345,798
Unreserved, undesignated	1,430	1,589	-	(226,359)	2,643	4,784	36,620	2,823	3	(56,242)
Total fund balances (deficits)	1,430	1,589	-	(226,359)	2,716	4,784	36,620	2,823	3	289,759
Total liabilities and fund balances (deficits)	\$ 3,758	\$ 1,633	\$ 179	\$ 275,947	\$ 2,801	\$ 4,900	\$ 55,238	\$ 2,881	\$ 3	\$ 1,933,102

State of Illinois
 Department of Revenue
 Combining Statement of Revenues,
 Expenditures and Changes in Fund Balance -
 Nonmajor Governmental Funds
 For the Year Ended June 30, 2010 (Expressed in Thousands)

	Special Revenue							
	Motor Fuel Tax 0012	Public Utility 0059	Underground Storage Tank 0072	Illinois Gaming Law Enforcement 0085	IDOR Federal Trust 0140	Rental Housing Support Program 0150	State & Local Sales Tax Reform 0186	RTA Occupation and Use Tax Replacement 0187
REVENUES								
Federal operating grants	\$ 148	\$ -	\$ -	\$ -	\$ 4	\$ -	\$ -	\$ -
Income taxes	-	-	-	-	-	-	-	-
Sales taxes	-	-	-	-	-	-	231,096	-
Motor fuel taxes	1,231,591	-	70,409	-	-	-	-	-
Public utility taxes	-	6,454	-	-	-	-	-	-
Other taxes	-	-	-	2,773	-	17,208	-	-
License and fees	588	5,500	-	302	-	-	-	-
Other charges for services	-	-	-	-	-	-	-	-
Interest and other investment income	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Total revenues	1,232,327	11,954	70,409	3,075	4	17,208	231,096	-
EXPENDITURES								
General government	52,179	-	1,242	-	2	16,435	-	-
Health and social services	-	-	-	-	-	-	-	-
Employment and economic development	-	-	-	-	-	-	-	-
Environment and business regulation	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	1,483	-	-	52,158	22,594
Capital outlay	52	-	-	-	-	-	-	-
Total expenditures	52,231	-	1,242	1,483	2	16,435	52,158	22,594
Excess (deficiency) of revenues over (under) expenditures	1,180,096	11,954	69,167	1,592	2	773	178,938	(22,594)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES								
Appropriations from State resources	108,623	-	1,326	2,995	-	-	-	-
Lapsed appropriations	(30,880)	-	(84)	(1,477)	-	-	-	-
Receipts collected and transmitted to State Treasury	(1,269,105)	(11,954)	(70,816)	(3,097)	-	-	-	-
Amount of SAMS transfers-in	-	-	-	-	-	-	-	-
Amount of SAMS transfers-out	-	-	-	-	-	-	-	-
Transfer of administration of funds to other State agencies	-	-	-	-	-	-	-	-
Transfers-in	-	-	-	-	-	-	-	22,594
Transfers-out	-	-	-	-	-	-	(179,231)	-
Net other sources (uses) of financial resources	(1,191,362)	(11,954)	(69,574)	(1,579)	-	-	(179,231)	22,594
Net change in fund balances	(11,266)	-	(407)	13	2	773	(293)	-
Fund balances (deficits), July 1, 2009	101,462	5,500	6,450	(486)	33	5,111	(1,028)	-
FUND BALANCES (DEFICITS), JUNE 30, 2010	\$ 90,196	\$ 5,500	\$ 6,043	\$ (473)	\$ 35	\$ 5,884	\$ (1,321)	\$ -

State of Illinois
Department of Revenue
Combining Statement of Revenues,
Expenditures and Changes in Fund Balance -
Nonmajor Governmental Funds
For the Year Ended June 30, 2010 (Expressed in Thousands)

	Special Revenue								
	County & Mass Transit 0188	Local Government Tax 0189	Illinois Sports Facility 0225	Emergency Public Health 0240	Racing Board Fingerprint License 0248	Illinois Racing Board Charity 0271	Debt Collection 0279	Illinois Racing Board Grant 0280	Illinois Tax Increment 0281
REVENUES									
Federal operating grants	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Income taxes	-	-	-	-	-	-	-	-	-
Sales taxes	299,549	1,480,965	-	-	-	-	-	-	18,275
Motor fuel taxes	-	-	-	-	-	-	-	-	-
Public utility taxes	-	-	-	-	-	-	-	-	-
Other taxes	-	-	-	-	-	-	-	-	-
License and fees	-	-	-	3,582	-	-	-	-	-
Other charges for services	-	-	-	-	-	-	-	-	-
Interest and other investment income	-	-	-	-	-	-	-	-	11
Other	-	-	-	-	-	-	22	-	-
Total revenues	299,549	1,480,965	-	3,582	-	-	22	-	18,286
EXPENDITURES									
General government	-	-	-	-	-	-	19	-	-
Health and social services	-	-	-	-	-	-	-	-	-
Employment and economic development	-	-	3,750	-	-	-	-	-	-
Environment and business regulation	-	-	-	-	-	-	-	-	-
Intergovernmental	300,290	1,483,623	-	-	-	-	-	-	18,962
Capital outlay	-	-	-	-	-	-	-	-	-
Total expenditures	300,290	1,483,623	3,750	-	-	-	19	-	18,962
Excess (deficiency) of revenues over (under) expenditures	(741)	(2,658)	(3,750)	3,582	-	-	3	-	(676)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES									
Appropriations from State resources	-	-	-	-	-	-	-	-	-
Lapsed appropriations	-	-	-	-	-	-	-	-	-
Receipts collected and transmitted to State Treasury	-	-	-	(3,417)	-	-	-	-	-
Amount of SAMS transfers-in	-	-	-	-	-	-	-	-	-
Amount of SAMS transfers-out	-	-	-	-	-	-	-	-	-
Transfer of administration of funds to other State agencies	-	-	-	-	(92)	(27)	-	44	-
Transfers-in	-	-	3,750	-	-	-	-	-	-
Transfers-out	-	-	-	-	-	-	-	-	-
Net other sources (uses) of financial resources	-	-	3,750	(3,417)	(92)	(27)	-	44	-
Net change in fund balances	(741)	(2,658)	-	165	(92)	(27)	3	44	(676)
Fund balances (deficits), July 1, 2009	(1,051)	(4,377)	-	593	92	27	46	(44)	(806)
FUND BALANCES (DEFICITS), JUNE 30, 2010	\$ (1,792)	\$ (7,035)	\$ -	\$ 758	\$ -	\$ -	\$ 49	\$ -	\$ (1,482)

State of Illinois

Department of Revenue

Combining Statement of Revenues,

Expenditures and Changes in Fund Balance -

Nonmajor Governmental Funds

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

	Special Revenue						Predatory Lending Database Program 0478
	Illinois Affordable Housing Trust 286	Used Tire Management 0294	Natural Areas Acquisition 0298	Open Space Lands Acquisition & Development 0299	Horse Racing Equity Trust 0313	Tax Compliance and Administration 0384	
REVENUES							
Federal operating grants	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Income taxes	-	-	-	-	-	-	-
Sales taxes	-	-	-	-	-	180	-
Motor fuel taxes	-	-	-	-	-	-	-
Public utility taxes	-	-	-	-	-	1,490	-
Other taxes	19,267	-	5,780	13,487	-	5	-
License and fees	45	13,617	-	-	-	1,365	-
Other charges for services	-	-	-	-	-	444	-
Interest and other investment income	2,051	-	-	-	-	-	-
Other	10,408	-	-	-	-	-	-
Total revenues	31,771	13,617	5,780	13,487	-	3,484	-
EXPENDITURES							
General government	18,936	-	-	-	-	3,721	1,100
Health and social services	159	-	-	-	-	-	-
Employment and economic development	-	-	-	-	-	-	-
Environment and business regulation	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Total expenditures	19,095	-	-	-	-	3,721	1,100
Excess (deficiency) of revenues over (under) expenditures	12,676	13,617	5,780	13,487	-	(237)	(1,100)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES							
Appropriations from State resources	-	-	-	-	-	-	-
Lapsed appropriations	-	-	-	-	-	-	-
Receipts collected and transmitted to State Treasury	-	(12,986)	(6,048)	(14,113)	-	-	-
Amount of SAMS transfers-in	-	-	-	-	-	-	-
Amount of SAMS transfers-out	-	2,209	-	-	-	-	-
Transfer of administration of funds to other State agencies	-	-	-	-	(91,129)	-	-
Transfers-in	-	-	-	-	-	-	-
Transfers-out	-	(2,251)	-	-	-	-	-
Net other sources (uses) of financial resources	-	(13,028)	(6,048)	(14,113)	(91,129)	-	-
Net change in fund balances	12,676	589	(268)	(626)	(91,129)	(237)	(1,100)
Fund balances (deficits), July 1, 2009	343,899	1,897	356	831	91,129	1,029	2,050
FUND BALANCES (DEFICITS), JUNE 30, 2010	\$ 356,575	\$ 2,486	\$ 88	\$ 205	\$ -	\$ 792	\$ 950

State of Illinois
 Department of Revenue
 Combining Statement of Revenues,
 Expenditures and Changes in Fund Balance -
 Nonmajor Governmental Funds
 For the Year Ended June 30, 2010 (Expressed in Thousands)

	Special Revenue						
	Local Government Distributive 0515	Drycleaner Environmental Response 0548	Supplemental Low Income Energy Assistance 0550	Renewable Energy Resource 0564	School Infrastructure 0568	International Tourism 0621	Horse Racing 0632
REVENUES							
Federal operating grants	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Income taxes	-	-	-	-	-	-	-
Sales taxes	-	-	-	-	-	-	-
Motor fuel taxes	-	-	-	-	-	-	-
Public utility taxes	-	-	118,811	-	94,217	-	-
Other taxes	-	619	-	-	60,000	7,893	-
License and fees	-	2,073	-	5,428	-	-	-
Other charges for services	-	-	-	-	-	-	-
Interest and other investment income	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Total revenues	-	2,692	118,811	5,428	154,217	7,893	-
EXPENDITURES							
General government	-	-	-	-	-	-	-
Health and social services	-	-	-	-	-	-	-
Employment and economic development	-	-	-	-	-	-	-
Environment and business regulation	-	-	-	-	-	-	-
Intergovernmental	1,132,691	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Total expenditures	1,132,691	-	-	-	-	-	-
Excess (deficiency) of revenues over (under) expenditures	(1,132,691)	2,692	118,811	5,428	154,217	7,893	-
OTHER SOURCES (USES) OF FINANCIAL RESOURCES							
Appropriations from State resources	-	-	-	-	-	-	-
Lapsed appropriations	-	-	-	-	-	-	-
Receipts collected and transmitted to State Treasury	-	(2,675)	(121,231)	(5,580)	(153,212)	(7,770)	-
Amount of SAMS transfers-in	-	-	-	-	-	-	-
Amount of SAMS transfers-out	-	-	-	-	-	-	-
Transfer of administration of funds to other State agencies	-	-	-	-	-	-	969
Transfers-in	1,136,441	-	-	-	-	-	-
Transfers-out	(3,750)	-	-	-	-	-	-
Net other sources (uses) of financial resources	1,132,691	(2,675)	(121,231)	(5,580)	(153,212)	(7,770)	969
Net change in fund balances	-	17	(2,420)	(152)	1,005	123	969
Fund balances (deficits), July 1, 2009	-	127	10,469	654	425	1,466	(969)
FUND BALANCES (DEFICITS), JUNE 30, 2010	\$ -	\$ 144	\$ 8,049	\$ 502	\$ 1,430	\$ 1,589	\$ -

State of Illinois

Department of Revenue

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

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

	Special Revenue							Total
	Municipal Economic Development 0650	Personal Property Tax Replacement 0802	Dram Shop 0821	Citizen Real Estate Deferred Tax 0930	Build Illinois 0960	Local Tourism 0969	Evidence Fund 1369	
REVENUES								
Federal operating grants	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 152
Income taxes	-	809,319	-	-	-	-	-	809,319
Sales taxes	-	-	-	-	378,395	-	-	2,408,460
Motor fuel taxes	-	-	-	-	-	-	-	1,302,000
Public utility taxes	85	179,130	-	-	-	-	-	400,187
Other taxes	-	-	-	-	93,013	14,069	-	234,114
License and fees	-	-	6,237	-	-	-	-	38,737
Other charges for services	-	-	-	-	-	-	-	444
Interest and other investment income	-	407	-	-	-	-	-	2,469
Other	-	-	8	3,802	-	-	2	14,242
Total revenues	85	988,856	6,245	3,802	471,408	14,069	2	5,210,124
EXPENDITURES								
General government	604	(34)	-	8,722	-	-	5	102,931
Health and social services	-	-	-	-	-	-	-	159
Employment and economic development	-	-	-	-	-	-	-	3,750
Environment and business regulation	-	-	5,734	-	-	-	-	5,734
Intergovernmental	-	1,087,152	-	-	-	-	-	4,098,953
Capital outlay	-	-	-	-	-	-	-	52
Total expenditures	604	1,087,118	5,734	8,722	-	-	5	4,211,579
Excess (deficiency) of revenues over (under) expenditures	(519)	(98,262)	511	(4,920)	471,408	14,069	(3)	998,545
OTHER SOURCES (USES) OF FINANCIAL RESOURCES								
Appropriations from State resources	-	-	-	-	-	-	-	112,944
Lapsed appropriations	-	-	-	-	-	-	-	(32,441)
Receipts collected and transmitted to State Treasury	-	-	-	-	(468,601)	(13,850)	-	(2,164,455)
Amount of SAMS transfers-in	-	-	-	-	(37,800)	-	-	(37,800)
Amount of SAMS transfers-out	-	-	-	-	-	-	-	2,209
Transfer of administration of funds to other State agencies	-	-	-	-	-	-	-	(90,235)
Transfers-in	519	-	-	9,700	37,800	-	-	1,210,804
Transfers-out	-	(6,285)	(500)	-	-	-	-	(192,017)
Net other sources (uses) of financial resources	519	(6,285)	(500)	9,700	(468,601)	(13,850)	-	(1,190,991)
Net change in fund balances	-	(104,547)	11	4,780	2,807	219	(3)	(192,446)
Fund balances (deficits), July 1, 2009	-	(121,812)	2,705	4	33,813	2,604	6	482,205
FUND BALANCES (DEFICITS), JUNE 30, 2010	\$ -	\$ (226,359)	\$ 2,716	\$ 4,784	\$ 36,620	\$ 2,823	\$ 3	\$ 289,759

State of Illinois
Department of Revenue

Combining Statement of Fiduciary Net Assets
Agency Funds
June 30, 2010 (Expressed in Thousands)

	Agency				
	County Water Commission Tax 0084	Non-Home Rule Municipal ROT 0088	Home Rule Municipal Soft Drink ROT 0097	Home Rule Municipal ROT 0138	Home Rule County ROT 0139
ASSETS					
Cash equity in State Treasury	\$ 5,790	\$ 17,959	\$ 1,770	\$ 97,050	\$ 91,188
Cash and cash equivalents	-	-	-	-	-
Securities lending collateral equity with State Treasurer	2,732	4,989	-	23,388	21,746
Taxes receivable, net	1,914	4,910	841	38,455	26,036
Other receivables, net	6	11	-	50	47
Due from other Department funds	-	-	-	-	-
Total assets	\$ 10,442	\$ 27,869	\$ 2,611	\$ 158,943	\$ 139,017
LIABILITIES					
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ 1,752	\$ -
Intergovernmental payables	7,710	22,880	2,611	133,803	117,271
Obligations under securities lending of State Treasurer	2,732	4,989	-	23,388	21,746
Other liabilities	-	-	-	-	-
Total liabilities	\$ 10,442	\$ 27,869	\$ 2,611	\$ 158,943	\$ 139,017

State of Illinois
Department of Revenue

Combining Statement of Fiduciary Net Assets
Agency Funds
June 30, 2010 (Expressed in Thousands)

	Agency				
	Business District Retailers' Occupation Tax 0160	County Option Motor Fuel Tax 0190	County Public Safety ROT 0219	Sports Facility Tax Trust 0229	Metropolitan Pier & Expo. Auth. Trust 0337
ASSETS					
Cash equity in State Treasury	\$ 1,477	\$ 5,519	\$ 12,456	\$ 111	\$ 8,919
Cash and cash equivalents	-	-	-	-	-
Securities lending collateral equity with State Treasurer	-	1,435	-	-	2,633
Taxes receivable, net	644	2,864	4,308	90	12,487
Other receivables, net	-	3	-	-	6
Due from other Department funds	-	-	-	-	-
Total assets	\$ 2,121	\$ 9,821	\$ 16,764	\$ 201	\$ 24,045
LIABILITIES					
Accounts payable and accrued liabilities	\$ -	\$ 165	\$ -	\$ 64	\$ -
Intergovernmental payables	2,121	8,221	16,764	137	21,412
Obligations under securities lending of State Treasurer	-	1,435	-	-	2,633
Other liabilities	-	-	-	-	-
Total liabilities	\$ 2,121	\$ 9,821	\$ 16,764	\$ 201	\$ 24,045

State of Illinois
Department of Revenue

Combining Statement of Fiduciary Net Assets
Agency Funds
June 30, 2010 (Expressed in Thousands)

	Agency				
	Illinois Tourism Tax 0452	School Facility Occupation Tax 498	Flood Prevention Occupation Tax 0558	Tax Suspense Trust 0583	Metro East Park & Recreation 0717
ASSETS					
Cash equity in State Treasury	\$ 2,205	\$ 394	\$ 527	\$ 37	\$ 920
Cash and cash equivalents	-	-	-	-	-
Securities lending collateral equity with State Treasurer	-	-	-	-	-
Taxes receivable, net	1,794	5,824	2,297	-	253
Other receivables, net	-	-	-	-	-
Due from other Department funds	-	-	-	-	-
Total assets	\$ 3,999	\$ 6,218	\$ 2,824	\$ 37	\$ 1,173
LIABILITIES					
Accounts payable and accrued liabilities	\$ 32	\$ -	\$ -	\$ -	\$ -
Intergovernmental payables	3,967	6,218	2,824	-	1,173
Obligations under securities lending of State Treasurer	-	-	-	-	-
Other liabilities	-	-	-	37	-
Total liabilities	\$ 3,999	\$ 6,218	\$ 2,824	\$ 37	\$ 1,173

State of Illinois
Department of Revenue

Combining Statement of Fiduciary Net Assets
Agency Funds
June 30, 2010 (Expressed in Thousands)

	Agency			
	Municipal Telecommunications 0719	RTA Sales Tax Trust 0812	Metro East Mass Transit District Tax 0841	Tennessee Valley Authority Local Trust 0861
ASSETS				
Cash equity in State Treasury	\$ 37,515	\$ 115,289	\$ 6,019	\$ 25
Cash and cash equivalents	-	-	-	-
Securities lending collateral equity with State Treasurer	-	26,308	1,692	-
Taxes receivable, net	5,330	40,194	1,631	-
Other receivables, net	-	56	4	-
Due from other Department funds	31,413	26,555	-	-
Total assets	\$ 74,258	\$ 208,402	\$ 9,346	\$ 25
LIABILITIES				
Accounts payable and accrued liabilities	\$ 4,089	\$ -	\$ -	\$ -
Intergovernmental payables	70,169	182,094	7,654	25
Obligations under securities lending of State Treasurer	-	26,308	1,692	-
Other liabilities	-	-	-	-
Total liabilities	\$ 74,258	\$ 208,402	\$ 9,346	\$ 25

State of Illinois
Department of Revenue

Combining Statement of Fiduciary Net Assets
Agency Funds
June 30, 2010 (Expressed in Thousands)

	Agency				Total
	Municipal Automobile Renting Tax 0868	County Automobile Renting Tax 0869	Surety Bond 1151	Lottery Agent Security Deposit 1309	
ASSETS					
Cash equity in State Treasury	\$ 1,180	\$ 20	\$ -	\$ -	\$ 406,370
Cash and cash equivalents	-	-	1,352	937	2,289
Securities lending collateral equity with State Treasurer	331	2	-	-	85,256
Taxes receivable, net	544	5	-	-	150,421
Other receivables, net	1	-	-	-	184
Due from other Department funds	-	-	-	-	57,968
Total assets	\$ 2,056	\$ 27	\$ 1,352	\$ 937	\$ 702,488
LIABILITIES					
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ -	\$ 6,102
Intergovernmental payables	1,725	25	-	-	608,804
Obligations under securities lending of State Treasurer	331	2	-	-	85,256
Other liabilities	-	-	1,352	937	2,326
Total liabilities	\$ 2,056	\$ 27	\$ 1,352	\$ 937	\$ 702,488

State of Illinois
Department of Revenue

Combining Statement of Changes in Assets and Liabilities

Agency Funds

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

	Balance at July 1, 2009	Additions	Deletions	Balance at June 30, 2010
County Water Commission Tax (0084)				
ASSETS				
Cash equity in State Treasury	\$ 7,834	\$ 26,865	\$ 28,909	\$ 5,790
Securities lending collateral equity with State Treasurer	1,081	33,214	31,563	2,732
Taxes receivable, net	1,694	30,156	29,936	1,914
Other receivables, net	5	48	47	6
Total assets	\$ 10,614	\$ 90,283	\$ 90,455	\$ 10,442
LIABILITIES				
Intergovernmental payables	\$ 9,533	\$ 27,086	\$ 28,909	\$ 7,710
Obligations under securities lending of State Treasurer	1,081	33,214	31,563	2,732
Total liabilities	\$ 10,614	\$ 60,300	\$ 60,472	\$ 10,442
Non-Home Rule Municipal ROT (0088)				
ASSETS				
Cash equity in State Treasury	\$ 15,453	\$ 89,558	\$ 87,052	\$ 17,959
Securities lending collateral equity with State Treasurer	1,707	54,622	51,340	4,989
Taxes receivable, net	3,965	90,424	89,479	4,910
Other receivables, net	8	82	79	11
Total assets	\$ 21,133	\$ 234,686	\$ 227,950	\$ 27,869
LIABILITIES				
Intergovernmental payables	\$ 19,426	\$ 90,506	\$ 87,052	\$ 22,880
Obligations under securities lending of State Treasurer	1,707	54,622	51,340	4,989
Total liabilities	\$ 21,133	\$ 145,128	\$ 138,392	\$ 27,869
Home Rule Municipal Soft Drink ROT (0097)				
ASSETS				
Cash equity in State Treasury	\$ 1,474	\$ 8,503	\$ 8,207	\$ 1,770
Taxes receivable, net	706	8,638	8,503	841
Total assets	\$ 2,180	\$ 17,141	\$ 16,710	\$ 2,611
LIABILITIES				
Intergovernmental payables	\$ 2,180	\$ 8,638	\$ 8,207	\$ 2,611
Total liabilities	\$ 2,180	\$ 8,638	\$ 8,207	\$ 2,611

State of Illinois
Department of Revenue

Combining Statement of Changes in Assets and Liabilities

Agency Funds

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

	Balance at July 1, 2009	Additions	Deletions	Balance at June 30, 2010
Home Rule Municipal ROT (0138)				
ASSETS				
Cash equity in State Treasury	\$ 91,813	\$ 710,813	\$ 705,576	\$ 97,050
Securities lending collateral equity with State Treasurer	9,241	275,070	260,923	23,388
Taxes receivable, net	36,655	712,206	710,406	38,455
Other receivables, net	43	414	407	50
Total assets	\$ 137,752	\$ 1,698,503	\$ 1,677,312	\$ 158,943
LIABILITIES				
Accounts payable and accrued liabilities	\$ 1,165	\$ 1,549	\$ 962	\$ 1,752
Intergovernmental payables	127,346	711,071	704,614	133,803
Obligations under securities lending of State Treasurer	9,241	275,070	260,923	23,388
Total liabilities	\$ 137,752	\$ 987,690	\$ 966,499	\$ 158,943
Home Rule County ROT (0139)				
ASSETS				
Cash equity in State Treasury	\$ 116,796	\$ 646,740	\$ 672,348	\$ 91,188
Securities lending collateral equity with State Treasurer	12,817	371,900	362,971	21,746
Taxes receivable, net	18,853	653,361	646,178	26,036
Other receivables, net	59	550	562	47
Total assets	\$ 148,525	\$ 1,672,551	\$ 1,682,059	\$ 139,017
LIABILITIES				
Intergovernmental payables	\$ 135,708	\$ 653,911	\$ 672,348	\$ 117,271
Obligations under securities lending of State Treasurer	12,817	371,900	362,971	21,746
Total liabilities	\$ 148,525	\$ 1,025,811	\$ 1,035,319	\$ 139,017
Business District ROT (0160)				
ASSETS				
Cash equity in State Treasury	\$ 594	\$ 8,669	\$ 7,786	\$ 1,477
Taxes receivable, net	288	9,025	8,669	644
Total assets	\$ 882	\$ 17,694	\$ 16,455	\$ 2,121
LIABILITIES				
Intergovernmental payables	\$ 882	\$ 9,025	\$ 7,786	\$ 2,121
Total liabilities	\$ 882	\$ 9,025	\$ 7,786	\$ 2,121

State of Illinois
Department of Revenue

Combining Statement of Changes in Assets and Liabilities

Agency Funds

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

	Balance at July 1, 2009	Additions	Deletions	Balance at June 30, 2010
County Option Motor Fuel Tax (0190)				
ASSETS				
Cash equity in State Treasury	\$ 5,880	\$ 31,363	\$ 31,724	\$ 5,519
Securities lending collateral equity with State Treasurer	646	19,223	18,434	1,435
Taxes receivable, net	2,701	31,401	31,238	2,864
Other receivables, net	3	125	125	3
Total assets	\$ 9,230	\$ 82,112	\$ 81,521	\$ 9,821
LIABILITIES				
Accounts payable and accrued liabilities	\$ 171	\$ 809	\$ 815	\$ 165
Intergovernmental payables	8,413	30,717	30,909	8,221
Obligations under securities lending of State Treasurer	646	19,223	18,434	1,435
Total liabilities	\$ 9,230	\$ 50,749	\$ 50,158	\$ 9,821
County Public Safety ROT (0219)				
ASSETS				
Cash equity in State Treasury	\$ 11,551	\$ 75,772	\$ 74,867	\$ 12,456
Taxes receivable, net	3,579	76,501	75,772	4,308
Total assets	\$ 15,130	\$ 152,273	\$ 150,639	\$ 16,764
LIABILITIES				
Intergovernmental payables	\$ 15,130	\$ 76,501	\$ 74,867	\$ 16,764
Total liabilities	\$ 15,130	\$ 76,501	\$ 74,867	\$ 16,764
Sports Facility Tax Trust (0229)				
ASSETS				
Cash equity in State Treasury	\$ -	\$ 111	\$ -	\$ 111
Taxes receivable, net	72	129	111	90
Total assets	\$ 72	\$ 240	\$ 111	\$ 201
LIABILITIES				
Accounts payable and accrued liabilities	\$ 50	\$ 271	\$ 257	\$ 64
Intergovernmental payables	22	115	-	137
Total liabilities	\$ 72	\$ 386	\$ 257	\$ 201

State of Illinois
Department of Revenue

Combining Statement of Changes in Assets and Liabilities

Agency Funds

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

	Balance at July 1, 2009	Additions	Deletions	Balance at June 30, 2010
Metro Pier & Exposition Authority Trust (0337)				
ASSETS				
Cash equity in State Treasury	\$ 6,796	\$ 100,369	\$ 98,246	\$ 8,919
Securities lending collateral equity with State Treasurer	832	27,998	26,197	2,633
Taxes receivable, net	7,622	105,194	100,329	12,487
Other receivables, net	4	42	40	6
Total assets	\$ 15,254	\$ 233,603	\$ 224,812	\$ 24,045
LIABILITIES				
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ -
Intergovernmental payables	14,422	105,236	98,246	21,412
Obligations under securities lending of State Treasurer	832	27,998	26,197	2,633
Total liabilities	\$ 15,254	\$ 133,234	\$ 124,443	\$ 24,045
Illinois Tourism Tax (0452)				
ASSETS				
Cash equity in State Treasury	\$ 1,602	\$ 14,368	\$ 13,765	\$ 2,205
Taxes receivable, net	1,466	14,696	14,368	1,794
Total assets	\$ 3,068	\$ 29,064	\$ 28,133	\$ 3,999
LIABILITIES				
Accounts payable and accrued liabilities	\$ 28	\$ 114	\$ 110	\$ 32
Intergovernmental payables	3,040	14,582	13,655	3,967
Total liabilities	\$ 3,068	\$ 14,696	\$ 13,765	\$ 3,999
School Facility Occupation Tax (498)				
ASSETS				
Cash equity in State Treasury	\$ 20	\$ 11,253	\$ 10,879	\$ 394
Taxes receivable, net	13	17,064	11,253	5,824
Total assets	\$ 33	\$ 28,317	\$ 22,132	\$ 6,218
LIABILITIES				
Intergovernmental payables	\$ 33	\$ 17,064	\$ 10,879	\$ 6,218
Total liabilities	\$ 33	\$ 17,064	\$ 10,879	\$ 6,218

State of Illinois
Department of Revenue

Combining Statement of Changes in Assets and Liabilities

Agency Funds

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

	Balance at July 1, 2009	Additions	Deletions	Balance at June 30, 2010
Flood Prevention Occupation Tax (558)				
ASSETS				
Cash equity in State Treasury	\$ -	\$ 11,097	\$ 10,570	\$ 527
Taxes receivable, net	13	13,381	11,097	2,297
Total assets	\$ 13	\$ 24,478	\$ 21,667	\$ 2,824
LIABILITIES				
Intergovernmental payables	\$ 13	\$ 13,381	\$ 10,570	\$ 2,824
Total liabilities	\$ 13	\$ 13,381	\$ 10,570	\$ 2,824
Tax Suspense Trust (0583)				
ASSETS				
Cash equity in State Treasury	\$ 22	\$ 15	\$ -	\$ 37
Total assets	\$ 22	\$ 15	\$ -	\$ 37
LIABILITIES				
Other liabilities	\$ 22	\$ 15	\$ -	\$ 37
Total liabilities	\$ 22	\$ 15	\$ -	\$ 37
Metro East Park and Recreation (0717)				
ASSETS				
Cash equity in State Treasury	\$ 682	\$ 4,384	\$ 4,146	\$ 920
Taxes receivable, net	173	4,464	4,384	253
Total assets	\$ 855	\$ 8,848	\$ 8,530	\$ 1,173
LIABILITIES				
Intergovernmental payables	\$ 855	\$ 4,464	\$ 4,146	\$ 1,173
Total liabilities	\$ 855	\$ 4,464	\$ 4,146	\$ 1,173

State of Illinois
Department of Revenue

Combining Statement of Changes in Assets and Liabilities

Agency Funds

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

	Balance at July 1, 2009	Additions	Deletions	Balance at June 30, 2010
Municipal Telecommunications Fund (0719)				
ASSETS				
Cash equity in State Treasury	\$ 53,044	\$ 275,763	\$ 291,292	\$ 37,515
Taxes receivable, net	18,737	262,356	275,763	5,330
Due from other Department funds	9,783	21,630	-	31,413
Total assets	\$ 81,564	\$ 559,749	\$ 567,055	\$ 74,258
LIABILITIES				
Accounts payable and accrued liabilities	\$ 6,561	\$ 67,677	\$ 70,149	\$ 4,089
Intergovernmental payables	75,003	216,309	221,143	70,169
Total liabilities	\$ 81,564	\$ 283,986	\$ 291,292	\$ 74,258
RTA Public Transportation Tax (0741)				
ASSETS				
Cash equity in State Treasury	\$ 5	\$ -	\$ 5	\$ -
Securities lending collateral equity with State Treasurer	1	17	18	-
Total assets	\$ 6	\$ 17	\$ 23	\$ -
LIABILITIES				
Intergovernmental payables	\$ 5	\$ -	\$ 5	\$ -
Obligations under securities lending of State Treasurer	1	17	18	-
Total liabilities	\$ 6	\$ 17	\$ 23	\$ -
RTA Sales Tax Trust (0812)				
ASSETS				
Cash equity in State Treasury	\$ 132,259	\$ 969,329	\$ 986,299	\$ 115,289
Securities lending collateral equity with State Treasurer	13,879	375,072	362,643	26,308
Taxes receivable, net	29,539	872,552	861,897	40,194
Other receivables, net	64	555	563	56
Due from other Department funds	25,745	107,679	106,869	26,555
Total assets	\$ 201,486	\$ 2,325,187	\$ 2,318,271	\$ 208,402
LIABILITIES				
Intergovernmental payables	\$ 187,607	\$ 980,786	\$ 986,299	\$ 182,094
Obligations under securities lending of State Treasurer	13,879	375,072	362,643	26,308
Total liabilities	\$ 201,486	\$ 1,355,858	\$ 1,348,942	\$ 208,402

State of Illinois
Department of Revenue

Combining Statement of Changes in Assets and Liabilities

Agency Funds

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

	Balance at July 1, 2009	Additions	Deletions	Balance at June 30, 2010
Metro East Mass Transit Dist. Tax (0841)				
ASSETS				
Cash equity in State Treasury	\$ 5,425	\$ 28,700	\$ 28,106	\$ 6,019
Securities lending collateral equity with State Treasurer	647	18,983	17,938	1,692
Taxes receivable, net	1,320	28,984	28,673	1,631
Other receivables, net	3	28	27	4
Total assets	\$ 7,395	\$ 76,695	\$ 74,744	\$ 9,346
LIABILITIES				
Intergovernmental payables	\$ 6,748	\$ 29,012	\$ 28,106	\$ 7,654
Obligations under securities lending of State Treasurer	647	18,983	17,938	1,692
Total liabilities	\$ 7,395	\$ 47,995	\$ 46,044	\$ 9,346
Tennessee Valley Authority Local Trust (0861)				
ASSETS				
Cash equity in State Treasury	\$ 22	\$ 281	\$ 278	\$ 25
Total assets	\$ 22	\$ 281	\$ 278	\$ 25
LIABILITIES				
Intergovernmental payables	\$ 22	\$ 281	\$ 278	\$ 25
Total liabilities	\$ 22	\$ 281	\$ 278	\$ 25
Municipal Automobile Renting Tax (0868)				
ASSETS				
Cash equity in State Treasury	\$ 1,067	\$ 5,319	\$ 5,206	\$ 1,180
Securities lending collateral equity with State Treasurer	120	4,056	3,845	331
Taxes receivable, net	490	5,367	5,313	544
Other receivables, net	1	6	6	1
Total assets	\$ 1,678	\$ 14,748	\$ 14,370	\$ 2,056
LIABILITIES				
Intergovernmental payables	\$ 1,558	\$ 5,373	\$ 5,206	\$ 1,725
Obligations under securities lending of State Treasurer	120	4,056	3,845	331
Total liabilities	\$ 1,678	\$ 9,429	\$ 9,051	\$ 2,056

State of Illinois
Department of Revenue

Combining Statement of Changes in Assets and Liabilities

Agency Funds

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

	Balance at July 1, 2009	Additions	Deletions	Balance at June 30, 2010
County Automobile Renting Tax (0869)				
ASSETS				
Cash equity in State Treasury	\$ 19	\$ 229	\$ 228	\$ 20
Securities lending collateral equity with State Treasurer	2	31	31	2
Taxes receivable, net	4	230	229	5
Total assets	\$ 25	\$ 490	\$ 488	\$ 27
LIABILITIES				
Intergovernmental payables	\$ 23	\$ 230	\$ 228	\$ 25
Obligations under securities lending of State Treasurer	2	31	31	2
Total liabilities	\$ 25	\$ 261	\$ 259	\$ 27
Surety Bond (1151)				
ASSETS				
Cash and cash equivalents	\$ 3,158	\$ 272	\$ 2,078	\$ 1,352
Total assets	\$ 3,158	\$ 272	\$ 2,078	\$ 1,352
LIABILITIES				
Other liabilities	\$ 3,158	\$ 272	\$ 2,078	\$ 1,352
Total liabilities	\$ 3,158	\$ 272	\$ 2,078	\$ 1,352
Lottery Agent Security Deposit (1309)				
ASSETS				
Cash and cash equivalents	\$ 1,170	\$ 379	\$ 612	\$ 937
Total assets	\$ 1,170	\$ 379	\$ 612	\$ 937
LIABILITIES				
Other liabilities	\$ 1,170	\$ 379	\$ 612	\$ 937
Total liabilities	\$ 1,170	\$ 379	\$ 612	\$ 937

State of Illinois
Department of Revenue

Combining Statement of Changes in Assets and Liabilities

Agency Funds

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

	Balance at July 1, 2009	Additions	Deletions	Balance at June 30, 2010
Total - All Agency Funds				
ASSETS				
Cash equity in State Treasury	\$ 452,358	\$ 3,019,501	\$ 3,065,489	\$ 406,370
Cash and cash equivalents	4,328	651	2,690	2,289
Securities lending collateral equity with State Treasurer	40,973	1,180,186	1,135,903	85,256
Taxes receivable, net	127,890	2,936,129	2,913,598	150,421
Other receivables, net	190	1,850	1,856	184
Due from other Department funds	35,528	129,309	106,869	57,968
Total assets	\$ 661,267	\$ 7,267,626	\$ 7,226,405	\$ 702,488
LIABILITIES				
Accounts payable and accrued liabilities	\$ 7,975	\$ 70,420	\$ 72,293	\$ 6,102
Intergovernmental payables	607,969	2,994,288	2,993,453	608,804
Obligations under securities lending of State Treasurer	40,973	1,180,186	1,135,903	85,256
Other liabilities	4,350	666	2,690	2,326
Total liabilities	\$ 661,267	\$ 4,245,560	\$ 4,204,339	\$ 702,488



Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of Illinois, Department of Revenue (Department), as of and for the year ended June 30, 2010, which collectively comprise the Department's basic financial statements and have issued our report thereon dated June 6, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting as a basis for designing our auditing procedures 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 Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Department's financial statements will not be prevented, or detected and corrected on a timely basis. We consider Finding 10-1 described in the accompanying schedule of findings to be a material weakness.

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. We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies: Findings 10-2 through 10-12.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings as items 10-10 and 10-11.

We noted certain matters that we reported to management of the Department in a separate letter dated June 6, 2011.

The State of Illinois, Department of Revenue's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. We did not audit the Department's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, State of Illinois, Department of Revenue management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

Schaumburg, Illinois
June 6, 2011

**State of Illinois
Department of Revenue
Schedule of Findings
For the Year Ended June 30, 2010**

10-1. FINDING (Fund Balance Deficit Exceeding \$2 Billion)

The Department of Revenue (Department) has a \$2.13 billion deficit in the General Fund's fund balance as of June 30, 2010 principally because the State did not allocate sufficient income tax revenues to the Income Tax Refund Fund, a subaccount of the General Fund reported by the Department.

As of June 30, 2010, on an accrual basis the Department owes the taxpayers of Illinois approximately \$1.5 billion representing income tax overpayments that will need to be refunded. The \$1.5 consists of \$735 million in approved refunds for perfected returns and an additional estimate of \$724 million for returns that are not yet filed or not yet perfected, and is based on historical data. Approximately 6% of the total liability is owed to individuals (IIT) and approximately 94% is owed to businesses (BIT). Additionally, without a significant increase in deposits into the 278 Fund, the liability to taxpayers, and the fund deficit, will continue to increase.

The Income Tax Refund Fund (278) was established by 30 ILCS 105/5.249 for the following purpose as stated in the State Comptroller's Fund Description "To record a percentage of individual and corporate income tax collections." Expenditures from the fund for refunds to individuals and corporations are made from a continuing appropriation, as provided by 35 ILCS 5/901(d) of the Illinois Income Tax Act.

Under the present system, created by the State statute referenced above, a percentage of income tax receipts (predominantly business and individual income taxes) are deposited into the 278 Fund for the purpose of paying refunds to those taxpayers who overpaid their tax liability each year. The percentage of income tax dollars to be deposited into this fund each year is established by the statute. Additionally, under the statute, the Department's Director is to determine the annual percentage necessary, using a predetermined formula defined in the statute, and is to certify this percentage to the State Comptroller no later than June 30th of each year preceding the fiscal year for which it is to be effective.

The formula is based on refunds approved for payment in the preceding fiscal year (AR), plus approved but unpaid refunds as of the end of the preceding fiscal year (UR), less amounts transferred to Fund 278 from the Tobacco Settlement Fund (TS) divided by income tax collections under the Act during the preceding fiscal year (C):

$$\frac{AR + UR - TS}{C}$$

Essentially the purpose of this formula is to determine the portion of total income tax refunds that are ultimately refunded back to taxpayers so that adequate funds can be set aside as collected, to ensure income tax refunds are paid to taxpayers in a timely fashion. Refunds that are not paid in a timely fashion (within 90 days of Department's receipt of the return), must be paid with interest.

The Department is required to calculate the "Rate as Certified" by June 30th each year only if there are no Rates set by law prior to June 30th (Rate per Statute). Enacted budget bills with Refund Fund Percentages ("Rates per Statute") override any "Rate as Certified" calculated using the statutory formula. If a budget bill is enacted prior to June 30th, the Department does not calculate the percentages using the formula above (Rate as Certified).

**State of Illinois
Department of Revenue
Schedule of Findings
For the Year Ended June 30, 2010**

10-1. FINDING (Fund Balance Deficit Exceeding \$2 Billion - Continued)

Under the Illinois Income Tax Act (35 ILCS 5/901), the formula based percentage (referred to as the “Rate as Certified” in the table below) is used only when a different rate is not defined in the Statute (referred to as the “Rate per Statute” in the table below). A comparison of the “Rates per Statute” and the “Rate as Certified” since FY 2002 is as follows:

State Fiscal Year	Individual Income Tax (IIT)		Business Income Tax (BIT)		278 Fund - Fund Balance (Deficit), in thousands
	Rate per Statute	Rate as Certified	Rate per Statute	Rate as Certified	
2002	7.60%	7.60%	23.00%	23.00%	\$ (1,091,619)
2003	8.00%	8.00%	27.00%	27.00%	(1,308,642)
2004	11.70%	11.70%	32.00%	32.00%	(745,086)
2005	10.00%	11.20%	24.00%	36.80%	(530,317)
2006	9.75%	*	20.00%	*	(622,628)
2007	9.75%	*	17.50%	*	(731,784)
2008	7.75%	*	15.50%	*	(854,829)
2009	9.75%	9.62%	17.50%	8.75%	(949,386)
2010	9.75%	11.99%	17.50%	17.14%	(1,380,161)
2011	8.75%	14.60%	17.50%	26.00%	not available

* In the table above, the “Rate per Statute” was enacted prior to June 30th for the following fiscal years 2006, 2007, and 2008. As such, there was no formula based rate calculation performed (“Rate as Certified”).

As can be seen from the table, the amounts deposited in the 278 Fund for 2002 through 2004 were based on the “Rate as Certified”, and the 278 Fund deficit was reduced over those years. Since that time, the “Rate as Certified” has been overridden and the deficit has been gradually increasing. The underfunding of the 278 Fund is the major contributor to the significant deficit that has accumulated in this fund through June 30, 2010.

As a result of the significant deficit in the 278 Fund, which increased significantly since 2009, the auditors inquired with management of the Department as to their plans for reducing or eliminating the deficit. In 2009, the plans to reduce the then \$949 million deficit were stated in the financial statements as follows: “The fund deficit in the General Fund (Refund Fund) will be eliminated through the collection and allocation of future State revenues to the Department.”

Despite this plan as reported in the 2009 financial statements, the Department was unable to increase the amount deposited in the 278 Fund for FY2010, which remained at 9.75% of income tax collections for IIT and 17.5% for BIT. As can be seen in the table above, the amount to be deposited in the 278 Fund for FY 2011 has not increased, but was instead decreased to 8.75% (a 10.3% decrease in the rate) for the 2011 fiscal year. Department management has not provided the auditors a detailed plan for eliminating the deficit as of the date of the auditor’s report. Although the Department is hopeful that the recent increase in the state income tax rate will provide the additional funds needed for the payment of income tax refunds, there has been no evidence presented to support the assertion that it will be sufficient.

In accordance with sound financial management practices, the Department should ensure an adequate amount of cash, for refunding income tax overpayments, is reserved and maintained in the fund designated to make such refund payments (Fund 278). These financial resources (tax overpayments) are not revenues of the State and every effort should be made to estimate the necessary cash reserve requirements for the purposes of making refunds, and such amounts should be deposited into the Income Tax Refund Fund (Fund 278) and made available to those taxpayers that request refunds.

**State of Illinois
Department of Revenue
Schedule of Findings
For the Year Ended June 30, 2010**

10-1. FINDING (Fund Balance Deficit Exceeding \$2 Billion - Continued)

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls, which shall provide assurance that 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.

Department management stated that they fulfilled the statutory obligation by calculating the "Rate as Certified" to appropriately fund the 278 Refund Fund. However, as noted by the auditor, the "Rate as Certified" has been overridden and the deficit has been continually increasing over the past several years.

As of June 30, 2010, the Department has recorded a liability of approximately \$1.5 billion for refunds payable to taxpayers. Without a significant increase in deposits into the 278 Fund, the existing liability to taxpayers and future liabilities will not be liquidated timely, and the fund deficit, will continue to increase. (Finding Code No. 10-1)

RECOMMENDATION

We recommend the Department work with the Governor and the General Assembly and Illinois Legislators to increase the percentage of deposits into the 278 Fund.

DEPARTMENT RESPONSE

The Department agrees with the recommendation that the Refund Fund be fully funded. In the last year the Department has taken steps to make all parties – taxpayers, tax professionals, the public, the media, the governor's office and legislators- aware of the issue. However, fully funding the Refund Fund can only be accomplished through legislative action. The Governor's office has proposed to include eliminating the backlog of business refunds in the borrowing plan it has submitted to the General Assembly, a plan that has yet to win approval.

**State of Illinois
Department of Revenue
Schedule of Findings
For the Year Ended June 30, 2010**

10-2. FINDING (Year-end Reporting Procedures for Receivables Not Followed)

The Department of Revenue (Department) did not follow its established procedures for determining the accuracy of its billed accounts receivable for financial reporting purposes. This led to the overstatement of balances initially reported in the GAAP packages for business income tax, individual income tax, withholding income tax and sales tax (BIT, IIT, WIT and ROT).

During our audit of the billed portion of taxes receivable from GenTax (BIT, IIT, WIT, ROT), we noted the Department did not thoroughly review certain accounts according to their established procedures. This oversight resulted in an overstatement of accounts receivable in the GAAP Packages initially submitted to the Comptroller. The receivable balance in the originally submitted GAAP packages totaling \$2 billion (\$1.3 billion net of the allowance) included billed receivables totaling \$1.06 billion (\$296 million net of the allowance), for all tax types (BIT, IIT, WIT, ROT and Excise). After the oversight was detected, the review procedure was performed and the GAAP packages and financial statements were adjusted to reduce the net receivables by \$17.6 million (refer to table in finding 10-5), to reflect the estimated (projected) differences based on the Department's review.

The Department has developed a policy for the review of billed accounts receivable recorded in GenTax. The review is to determine if all "significant" taxpayer accounts are valid accounts receivable for financial reporting purposes. Additionally, as part of the review, a sample of all other accounts that individually exceed \$1,000 are selected and analyzed to estimate the necessary adjustment amount for the remainder of the population. This review methodology and resulting policy were developed as a workaround to ensure accounts receivable are not materially misstated in the financial statements. The Department's GenTax system was designed to track all activity for taxpayer accounts. Certain charges, adjustments and payments are applied differently for this purpose than the treatment that would be given to report in accordance with the accrual basis of accounting. The Department's review process is intended to bridge the gap.

Per the Department's Policy titled "*Methodology for Arriving at Quarterly Accounts Receivable Report & Year-End Financial Statements/GAAP Receivables Balances*" states "In addition to the previously described reviews, an additional population consisting of all accounts greater than \$1,000.00 and less than the amount of the dollar range identified above for the associated tax will be sampled to arrive at the amount expected to be collected in cash. The amount of receivables determined to be invalid will be divided by the total dollar amount of the sample population to determine a percentage of receivables determined to be invalid."

The Department did not completely follow its policy in that it did not timely perform an analysis of the account balances that were not significant, yet individually exceeded \$1,000, as described above.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) states all State agencies shall establish and maintain a system, or systems, of internal fiscal and administrative controls, which shall provide assurance that revenues 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.

According to Department management, the error was discovered by the Department after issues came up during the auditors' testing.

The GAAP packages initially filed with the Comptroller were misstated. Accounts receivable and deferred revenue were overstated by approximately \$17.6 million, as determined by the Department. The amounts were subsequently adjusted and reported to the Comptroller and the adjusted amounts are reported in the financial statements. (Finding Code No. 10-2)

10-2. FINDING (Year-end Reporting Procedures for Receivables Not Followed – Continued)

RECOMMENDATION

Due to the manual nature of the year-end reporting process and the numerous accounts that must be manually adjusted, we recommend the Department prepare a year-end closing checklist that details all the required year-end adjustments, the source documents used to prepare the adjustments, the related accounting policy (if any) and any other helpful information. After the year-end adjustments are completed, the reviewer(s) should examine the adjustments against the checklist to make sure there are no missing entries, the correct source information was used, the policies and procedures were followed, and that other information noted on the checklist, if any, was considered. The supervisor should initial next to each item he or she is responsible for on the checklist to indicate the adjustment has been accurately prepared and recorded.

Additionally, we recommend the Department allocate sufficient personnel to the year-end reporting process to ensure all stated policies and procedures for properly reporting accounts receivable balances at year-end are followed and performed prior to preparation and submission of the GAAP packages to the Comptroller.

DEPARTMENT RESPONSE

The Department agrees that because of the manual nature of preparing year-end reports in a tight timeframe it did not follow its established procedures, resulting in the estimate of receivables being overstated by 1.7 percent. The Department notes that this affected only year-end financial statements and not tax collections or deposits. The Department concurs with the auditors, as noted in 10-5, that the GAAP packages were materially correct and in accordance with GAAP requirements.

**State of Illinois
 Department of Revenue
 Schedule of Findings
 For the Year Ended June 30, 2010**

10-3. FINDING (Year-end Accounting Estimate Not Prepared Accurately)

The Department of Revenue (Department) does not have sufficient procedures and controls in place to ensure that the amount reported for deferred revenue relating to income tax credit-carry forwards is determined based on all available information on hand.

The Department's original calculation for the estimate of deferred revenue associated with credit carry forwards (\$521 million) is based on a three year average, but was not prepared using all current information available. During our review of the credit calculation, we noted the Department performed its analysis using data which did not reflect the activity of the entire fiscal year for the most recent year used in their 3 year average (2009 returns for BIT and 2008 returns for IIT). Instead, the underlying data used in the calculation was initially extracted in May 2010, one month before year end. Upon recommendation from auditors, the Department re-analyzed data as of fiscal year-end (June 30, 2010) which led to an adjustment of the credit carry forward accrual (deferred revenue). Auditors proposed a \$14.5 million credit adjustment to deferred revenue to reflect the results of the updated calculation (\$536 million as adjusted). This adjustment was recorded by the Department.

In order to test the most recent year used in the three year average, we selected a random sample of 45 income tax deferred revenue accounts totaling \$241,856,603, from a population of 103,869 accounts totaling \$583 million. The population from which we selected our sample consisted only of 2009 tax returns for business income taxpayers, and 2008 tax returns for individual income taxpayers. The other two years of data used in the three year average were tested in prior audits. We noted errors in the calculation of deferred revenue for 9 of the 45 (20%) individual/business accounts sampled from the 2009 (BIT) and 2008(IIT) tax periods as detailed below:

<u>Description of error noted:</u>	<u>\$ Amount</u>
1 of 45 – Taxpayer requested refund was incorrectly included as a carry forward which overstated the calculation of deferred revenue for this account in the 2009 (BIT) population.	\$1,569,565
1 of 45 – Department calculated amended tax return was not picked up in the query which understated the calculation of deferred revenue for this account in the 2009 (BIT) population.	(\$133,248)
1 of 45 – A data entry error in GenTax caused the calculation of deferred revenue to be overstated for this account in the 2008 (IIT) population.	\$99,000
6 of 45 – Corrected returns were not considered causing the calculation of deferred revenue to be overstated for this account in the 2008 (IIT) population.	\$5,852
Total Errors Noted	\$1,541,169

The above errors were projected to the population (2009 BIT and 2008 IIT) and averaged with the previous 2 years used in the three year average. As a result of the errors above, deferred revenue as reported in the financial statements is overstated by approximately \$475,000. This amount was deemed immaterial and was not adjusted in the financial statements.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) states all State agencies shall establish and maintain a system, or systems, of internal fiscal and administrative controls, which shall provide assurance that revenues 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.

Additionally, because the amounts reported as deferred revenue are significant estimates, the Department should use all information on hand through the end of the fiscal year, plus any information that comes to light through the report issuance date, that pertains to any significant year-end estimates.

10-3. FINDING (Year-end Accounting Estimate Not Prepared Accurately - Continued)

Good internal controls over financial reporting would require that the estimate methodologies and calculations be monitored at year-end to detect errors and irregularities. In addition, these balances must be properly determined and adjusted at year-end in order to ensure amounts are accurately reported in the Department's financial statements.

Department management stated they were following the Accounting Policy in place as of fiscal year-end. Due to the large volume of credit carry forward accounts and the fact that 2008 (IIT) and 2009 (BIT) credit carry forwards are the last information available it was assumed that there would be insignificant changes in accounts from May to June 30. The Department management felt the additional time to review a larger sample of accounts to ensure the accuracy was more significant than any changes that might occur mid-May to June 30.

Using information that is not current can lead to significant errors in the estimation process. In this case, the original estimation of deferred revenue was understated by approximately \$14,500,000. (Finding Code No. 10-3)

RECOMMENDATION

Due to the manual nature of the year-end reporting process and the numerous accounts that must be manually adjusted, we recommend the Department prepare a year-end closing checklist that details all the required year-end adjustments, the source documents used to prepare the adjustments, the related accounting policy (if any) and any other helpful information. After the year-end adjustments are completed, the reviewer(s) should examine the adjustments against the checklist to make sure there are no missing entries, the correct source information was used, the policies and procedures were followed, and that other information noted on the checklist, if any, was considered. The supervisor should initial next to each item he or she is responsible for on the checklist to indicate the adjustment has been accurately prepared and recorded.

Additionally, we recommend the Department revise its policy for estimating deferred revenue pertaining to credit-carry forwards. The policy should require that information through June 30th of each fiscal year is used in the calculation and that any additional information received after year-end that could significantly impact the estimate be examined and utilized in the estimation process.

DEPARTMENT RESPONSE

The Department notes that the original estimate of deferred revenue associated with credit carry forwards, an issue that affects year-end financial statements not collection of taxes, was more than 97 percent accurate. The Department will review the current checklist used for GAAP preparation, supervisor review process, and the checklist used by the outside consultant review of all large GAAP packages and make adjustments if warranted. The Department has also initiated a SQR to automate the credit carry forward information and deferred revenue calculation. This will be implemented for FY11.

The Department has changed its credit carry forward accounting policy to require information through June 30. Based on the short time frames for GAAP and financial statement reporting and the volume of credit carry forward accounts, it is impractical for the Department to continually review additional returns and information filed on returns after year end to adjust our estimates.

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10-4. FINDING (Year-end Receivable Not Properly Allocated)

The Department of Revenue (Department) incorrectly allocated accrued taxes receivable for year-end financial reporting. A portion of the receivable pertaining to the Illinois Sports Facility's Fund (225) was recorded in error to the General Revenue Fund.

During our review of taxes receivable, auditors noted that hotel/motel taxes receivable within the Illinois Sports Facility's Fund was understated by approximately \$4.3 million. We noted that this amount was recorded in error to the General Revenue Fund. This adjustment was deemed immaterial and was not recorded to the financial statements.

In accordance with accounting principles generally accepted in the United States of America, and the principles of fund accounting, taxes receivable should be recorded within the appropriate fund to show the financial position of each fund individually. Additionally, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) states, "All State agencies shall establish and maintain a system, or systems, of internal fiscal and administrative controls, which shall provide assurance that: ... 4) 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."

Department management stated the Hotel Operators' Occupation Tax is collected and allocated to several funds on a daily basis using a spreadsheet. In completing the annual GAAP taxes receivable accrual, the Department used the same spreadsheet to allocate the receivable amount. When this has been completed, there should be a separate manual step to allocate an amount from the General Revenue Fund to the Illinois Sports Facilities Fund (225). This manual step was not completed so the balance remained in the General Revenue Fund (001) for year-end financial reporting.

By recording the receivable and related revenues within the General Revenue Fund, the Department has overstated taxes available for the State's general use and has understated amounts that must be used for the Illinois Sports Facility Fund. As a result of this error, receivables and intergovernmental liabilities are understated by approximately \$4.3 million in the Illinois Sports Facilities Fund and receivables and revenues are overstated by approximately \$4.3 million in the General Revenue Fund. (Finding Code No. 10-4)

RECOMMENDATION

Due to the manual nature of the year-end reporting process and the numerous accounts that must be manually adjusted, we recommend the Department prepare a year-end closing checklist that details all the required year-end adjustments, the source documents used to prepare the adjustments, the related accounting policy (if any) and any other helpful information. After the year-end adjustments are completed, the reviewer(s) should examine the adjustments against the checklist to make sure there are no missing entries, the correct source information was used, the policies and procedures were followed, and that other information noted on the checklist, if any, was considered. The supervisor should initial next to each item he or she is responsible for on the checklist to indicate the adjustment has been accurately prepared and recorded.

DEPARTMENT RESPONSE

The Department agrees that because of this oversight the year-end financials were inaccurate by the estimated receivable adjustment of \$4.3 million, which was an immaterial amount. The General Fund and the Sports Facility Fund did receive the proper amounts of money. The Department agrees that a year-end closing checklist that details all the required adjustments should be utilized. The Supervisor will review and initial spreadsheets used to allocate lapse period collections for Hotel Tax to ensure accurate allocation to appropriate funds.

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10-5. FINDING (Certain Year-end Receivables Not Valid)

The Department of Revenue (Department) included invalid taxes receivable accounts in the Department's accounts receivable calculation at June 30, 2010. During our testing of Sales Tax (ROT), Withholding Income Tax (WIT), Business Income Tax (BIT), and Individual Income Tax (IIT) accounts included in the Department's accounts receivable calculation at June 30, 2010, we noted the following:

Information received but not worked at June 30, 2010	# invalid	# tested	\$ invalid	\$ tested
Sales Taxes	1	33	\$ 38,989	\$ 27,072,092
Income Taxes	16	98	\$ 802,460	\$ 31,701,733

Payment received but not applied correctly or processed by June 30, 2010	# invalid	# tested	\$ invalid	\$ tested
Sales Taxes	1	33	\$ 1,659	\$ 27,072,092
Income Taxes	5	98	\$ 10,253	\$ 31,701,733

Data Entry Error or Error on Account	# invalid	# tested	\$ invalid	\$ tested
Income Taxes	4	98	\$ 647,207	\$ 31,701,733

Grand Total	# invalid	# tested	\$ invalid	\$ tested
Sales Taxes	2	33	\$ 40,648	\$ 27,072,092
Income Taxes	25	98	\$1,459,920	\$ 31,701,733

The errors noted above were projected to the entire billed sales and income tax receivable populations, and the projected estimated overstatement for the populations as a whole are noted in the following chart. In addition, the Department projected an error rate based on their own review and made the adjustments noted in the chart below. The difference between the auditor's projection and the Department's adjustments were deemed immaterial by the Department and were not recorded in the financial statements.

	Net A/R Expressed in millions			
	SALES	BIT	IIT	WIT
Projected error	\$ 4.8	\$ 10.9	\$ 26.3	\$ 2.2
IDOR adjustment	\$ -	\$ 8.8	\$ 9.9	\$ 1.0
Difference	\$ 4.8	\$ 2.1	\$ 16.4	\$ 1.2

The Department's GenTax system is currently being used as a subsidiary ledger for billed receivables (BIT, IIT, WIT, ROT). This application does not have the required functionality to ensure that individual taxpayer balances per the system are valid receivables in accordance with the accrual basis of accounting. For example, if a taxpayer payment or other information is received prior to fiscal year-end, but processed and posted after fiscal year-end, the system does not allow the payment or adjustment to be applied to the previous fiscal year, which is necessary for financial reporting purposes. Additionally, the Department does not maintain a general ledger. As such, balances reported in GenTax (subsidiary ledger) cannot be reconciled to a general ledger to detect these types of occurrences.

Under a good system of internal control, detailed records supporting amounts recorded in the financial statements should be reconciled to a general ledger on a periodic basis, preferably monthly. The general ledger should be updated at this time to reflect any adjustments identified. In addition, subsidiary ledgers should reflect all activity of the reporting period, regardless of the date the transaction is processed.

10-5. FINDING (Certain Year-end Receivables Not Valid - Continued)

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires State agencies to establish and maintain a system of fiscal and administrative controls to provide assurance that 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.

Department management wrote, "the noted invalid accounts were detected during their review process of accounts receivable performed in accordance with their stated review procedures (utilizing the sample selected by the internal audit office). These items were noted and the errors were extrapolated to the population and the amount was determined to be immaterial. Thus, the sales and income tax accounts receivable balance was materially correct as reported in the GAAP packages". However, the auditors point out that the invalid accounts were not selected by the Department's Internal Audit. The Department preaudited the samples selected by the auditors and found an issue with some of the accounts, specifically dealing with stop bill problems. The remaining invalid accounts were not previously identified by the Department.

As a result of these types of errors, sales and income tax receivables are overstated at June 30, 2010. The projected error for the population of sales and income tax receivables were approximately \$44.2 million, net of the estimated allowance. Additionally, under the present system, the risk of material errors is high for any period in which significant cash receipts are received in the last few days of the fiscal year, but processed after year-end. (Finding Code No. 10-5, 09-2, 08-2)

RECOMMENDATION

We recommend the Department continue to evaluate the controls over taxes receivable and implement the necessary edits and controls to better identify valid accounts receivables to report in the financial statements. In addition, we recommend the Department take action to ensure taxpayer information is timely considered or processed to ensure taxpayer's records and financial statement information reflects accurate information. In the long-term, the Department needs to enhance the capabilities of the GenTax system to permit the posting of transactions and adjustments to a previous period for financial reporting purposes.

DEPARTMENT RESPONSE

The Department disagrees with the recommendation; our tax records are accurate, timely processed, and proper controls are in place over taxes receivable. The Department's estimate of year-end receivables was materially correct. The \$24.5 million adjustment determined by the auditor means that the estimate of year end receivables was 97.8 percent (\$24.5 million out of \$1.1 billion) accurate.

AUDITOR'S COMMENT: If, as the Department stated, "our tax records are accurate, timely processed, and proper controls are in place over taxes receivable," the auditors would not have reported a finding. The Department is responsible for financial reporting in accordance with Generally Accepted Accounting Principles (GAAP). Presently, the Department utilizes tax information from the GenTax system to estimate and record a portion of year-end taxes receivable. Until such a time as an alternative system is available to accumulate receivables for financial reporting, the Department must ensure the information extracted from GenTax is accurate for financial reporting purposes. Based on the sample of 131 items selected, the error occurrence was high. This year, 21% of the accounts selected contained an error in the receivable calculation. Although the total projected error remaining for these accounts stated in dollars (\$24.5 million) is not material to the financial statements, it is not insignificant. Additionally, under the present system, the potential for a material misstatement remains.

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10-5. FINDING (Certain Year-end Receivables Not Valid - Continued)

The Department has submitted a system change request to further identify unworked accounts at year end in order to track historical collection trends. We will also submit a system change request for tracking year end payments received prior to June 30th not yet posted to GenTax until early July (total of these receipts \$7 million). However, as GenTax is a tax processing system not an accounting system, it is not economically feasible to change the core tax processing system to backdate processing transactions for financial reporting purposes.

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10-6. FINDING (SAS 70 Reports Not Obtained)

The Department of Revenue (Department) did not obtain SAS 70 reports containing independent reviews of externally controlled service organizations used to process tax returns. Without these reviews, the Department did not have adequate assurance that the tax processing controls necessary to prevent errors or irregularities from occurring were established and operating effectively throughout the year.

The Department uses 3 external service providers that provide data entry services for many sales tax and business, individual and withholding income tax returns. The Department did not obtain SAS 70 reports from any of these service providers. Of the total returns processed by the Department, approximately 75% of the volume is processed by these 3 third party service providers.

It is important to obtain and review an independent review of each service provider's tax processing systems environment. Independent reviews provide a method of evaluating the systems in place at each service provider and helps the Department develop internal control processes that would complement those at the service providers. Based on the review, the Department would have better assurance that the internal controls are adequate to ensure the taxpayer account balances and revenue recorded from such returns are accurate and reliable.

The Fiscal Control and Internal Auditing Act, 30 ILCS 10/3001 requires all State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls, which shall provide assurance that 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.

Department management stated they did not obtain or require that SAS 70 reports be required by the contracts that are currently in place with data entry vendors. There is no procurement standard to require a SAS70 from these vendors.

Under the present system, tax returns could be processed inaccurately resulting in misstatement of the financial statements. (Finding Code No. 10-6, 09-13)

RECOMMENDATION

We recommend the Department obtain and adequately review copies of the independent reviews (SAS 70 reports) for tax processing services provided by all third-party service providers (Providers) on an annual basis. User controls delineated in these reports should be implemented and monitored by the Department. For those Providers that do not have a SAS 70 performed, the Department should perform sufficient procedures to obtain satisfaction that internal controls are adequate for safeguarding assets and accounting information, and that controls are operating effectively. Any procedures performed should be fully documented by the Department including exceptions noted, the disposition of exceptions, conclusions reached and corrective action taken by the vendor. This information should be maintained for review by the external auditors.

DEPARTMENT RESPONSE

The Department has in place a systematic review process for reviewing the work of data entry vendors. That process has detected and prevented problems. However, we agree with the auditors that this is an important area and plan to contract for independent review services subject to funding for FY 2012.

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10-7. FINDING (Inadequate Control over Hotel Operators' Occupation Tax Allocations)

The Department of Revenue (Department) did not exercise adequate control over Hotel Operators' Occupation Tax (HOOT) deposit allocations or reconciliations.

During testing, we noted the Department's allocations of HOOT collections on behalf of the Illinois Sports Facilities Authority, Metropolitan Pier and Exposition Authority, and a local government did not appear to be in compliance with statutory formulas. In following up on this exception, we determined the Department **does not perform a reconciliation** of deposit allocations to actual return information for all funds receiving HOOT collections. During FY10, the Department processed a total of \$250,774,221 in HOOT collections.

Although we were able to conclude that there were no material misallocations of HOOT receipts to the various funds in FY10, due to the limitations described above the Department could potentially misallocate HOOT collections among:

- **State Funds**, including the General Revenue Fund, the Build Illinois Fund, the Local Tourism Fund, and the International Tourism Fund; and,
- **Fiduciary Funds**, including the Sports Facilities Tax Trust Fund, the Metropolitan Pier and Exposition Authority Trust Fund, and the Illinois Tourism Tax Fund and not detect and correct it in a timely fashion.

The Hotel Operators' Occupation Tax Act (35 ILCS 145/6) specifies an allocation methodology for the disposition of State HOOT tax collections into various funds.

The Illinois Sports Facilities Authority Act (70 ILCS 3205/19), the Metropolitan Pier and Exposition Authority Act (70 ILCS 210/13(c)), and the Municipal Code (65 ILCS 5/8-3-13) require all taxes, penalties, and interest collected pursuant to each respective imposed tax be deposited into the Sports Facilities Tax Trust Fund, the Metropolitan Pier and Exposition Authority Trust Fund, and the Illinois Tourism Tax Fund, respectfully.

In accordance with Generally Accepted Accounting Principles (GAAP), all assets, liabilities, revenues, and expenses should be properly recorded in the correct funds in the financial statements. The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires State agencies to establish and maintain a system of fiscal and administrative controls to provide assurance that 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.

Department personnel stated the Department does not perform reconciliations of actual return data after it is perfected to daily deposits because it is impractical in the current paper based tax processing/ environment. They further stated that human error caused the few minor deposit and transfer errors noted during the compliance testing of HOOT tax collections.

Failure to reconcile deposit allocations of HOOT collections with actual return data leads to unreconciled deposit errors among funds within the State Treasury. (Finding Code No. 10-7)

RECOMMENDATION

We recommend the Department perform a monthly comparison of detailed data from the legacy system (perfected return data) to the previous month's cash detail per CAS. This information should be reviewed to ensure all noted differences in the data is reasonable and reflects an explainable timing difference between the date in which cash is collected for a HOOT return versus the date in which the collected cash has been associated with a perfected return. This information should be reviewed by a supervisor and unusual/unexpected differences should be investigated.

10-7. **FINDING** (Inadequate Control over Hotel Operators' Occupation Tax Allocations Continued)

DEPARTMENT RESPONSE

The Department disagrees with the auditors' contention that it does not exercise adequate control over deposit allocations and reconciliations of State HOOT tax. The timely deposit of receipts and accurate distribution of funds is a critical mission for the Department of Revenue and a function that the Department takes seriously. The Department has used the same deposit and reconciliation process for at least 20 years without audit findings. The following is a brief outline of this process:

AUDITOR'S COMMENT: In regards to the Department stating they have "used the same deposit and reconciliation process for at least 20 years without audit findings," the Department did not, in our opinion, account for increases in the capability of technology allowing for the full reconciliation of receipts to deposits into the State Treasury or recognize significant statutory changes to the allocation of HOOT deposits in July 2001. As stated in both the *Independent Auditor's Report* and the *Independent Accountants' Report on State Compliance, on Internal Control over Compliance, and on Supplementary Information for State Compliance Purposes*, our examination is performed on a test basis, and as such, will not discover every instance of noncompliance in every audit period. The auditor's select only a sample of statutory mandates in each audit cycle out of the several hundred imposed by State law on the Department.

Returns/Receipts received in house:

Daily:

1. Returns/receipts are received, separated by payment/tax type, batched by RPS or Check 21 or hand validation.
2. Batch file is balanced with actual deposit information.
3. Batch file is transferred to the Consolidated Accounting System (CAS) which accounts for all deposits by tax type and clearing account
4. Batch file is transferred to applicable tax system.
5. Batch file is reconciled between applicable tax system and CAS.
6. Deposit is sent to Bank by clearing account (GL – we have 84 clearing accounts).
7. Deposit report from DC&D/Chicago.
8. Verify deposit tickets to summary remittances (batch details) previous day's work.
9. Receive tax transfer/BMS fund transfer reports and return bank items, record in CAS.

Weekly:

1. Receive State Treasurer's Office (STO) GL 300 report of all deposits for the previous week.
2. Generate weekly CAS journals and verify deposits against the GL 300 reports.
3. Prepare the weekly automatic draft worksheet – calculating fund distribution.
4. Enter fund distribution information into CAS.
5. Shared Services balances CAS fund/receipt information to STO non negotiable documents.
6. Generate Receipt Deposit Transmittals (C-64s) and submit via disk/hardcopy to Comptroller.
7. FCB reconciles STO GL300 to CAS cash journals.

Monthly:

1. Reconcile monthly deposits to system reports
2. Shared Services reconciles all CAS deposits to STO GL 350 (monthly)
3. Shared Services reconciles all receipts to collections reconciliations (monthly in transit).
4. Shared Services performs a non-shared fund reconciliation – reconciles CAS C-64's receipts and AIS payments to IOC fund balance.
5. Shared Services performs a verification of fund distributions by comparing monthly fund splits per IOC to a recalculation of percentages.

10-7. FINDING (Inadequate Control over Hotel Operators' Occupation Tax Allocations Continued)

6. FCB requests "pre-closing" information to compare return payments to CAS deposits to determine if all payments are posted for collection period. Anything not posted transfers to subsequent months.
7. Financial Control Personnel request closing report (perfected returns information for a specific CPE) for Excise taxes.
8. Shared Services receives monthly HOOT allocation reports. Transfers and vouchers as necessary to allocate HOOT funds based on report information.

While it is impractical to reconcile a total daily deposit batch to tax processing system totals after all returns are "perfected", we can trace any individual receipt to a deposit batch if required and vice versa. We also perform a myriad of reconciliations and reasonableness reviews to ensure that deposits are calculated and posted as intended per statutes and balance to daily and monthly deposit batch totals in GenTax and CAS to make adjustments for movement between tax types and funds, and perform a reasonable test of all deposits with statutory calculations.

AUDITOR'S COMMENT: The Department's response only indicates reconciliations are completed between cash deposits from one system to cash deposits on another system, which means their cash deposits agree between the Department's various systems. The Department's response excludes any reconciliation of cash deposits to amounts that should have been deposited per fund, in accordance with statutory requirements, from return data to ensure deposits into the State Treasury were complete and accurate.

The Department agrees that some small deposits/transfers and allocations were not performed during this fiscal year due to human error, lack of sufficient funds, and a misinterpretation of statute. We agree to correct the deposit and transfer errors and to recommend statute changes.

AUDITOR'S COMMENT: The Department's process is to estimate the amounts to deposit into the funds; however, they do not reconcile these estimated deposits to actual return data to ensure the accuracy and completeness of HOOT deposits into the State Treasury. If the Department had performed a simple reconciliation of the moneys deposited into the three fiduciary funds that are for HOOT taxes only charged within the City of Chicago, the Department would have discovered deposit allocation errors, as noted in this finding. A full reconciliation would reveal deposit errors requiring an adjustment by the Department.

The Department is in the process of moving the Excise Taxes to the new GenTax system and has developed a checklist so that monthly transactions are reviewed and appropriate transfers and vouchers are processed based on actual return data as received which should eliminate the missing transactions and deposits not made as required. Any discrepancies noted will be processed as receipt adjustments. In addition, after GenTax rollout 4 is complete, the Department will research further enhancements to GenTax and a rewrite of the current Consolidated Accounting System/new general ledger in order to determine the feasibility and cost/benefit of reconciling detail return information with deposit information.

10-8. FINDING (Inadequate Control over State Sales Tax Allocations)

The Department of Revenue (Department) did not exercise adequate control over the tax allocation process for State sales tax.

The Department is required by State statute, to allocate sales tax collections to local governments and various State funds based on legislated amounts and/or percentages. As cash is collected, the Department allocates it daily to the various State and local government funds based on estimates. Additionally, the first 2% of all collections are set aside (2% reserve) in order to have sufficient funds to “true-up” the various local government funds once the sales tax returns are perfected and the correct/final local government allocations are known. This is necessary because there is a delay of typically one month to process and approve (perfect) the sales tax return, from the date it is received by the Department.

The Department makes sales tax allocations to local governments monthly, based upon the batches of sales tax returns which were perfected during the previous month. These batches also include new cash receipts from previously perfected returns (collections on receivables), as well as other miscellaneous items. These perfected returns consist predominantly, but not exclusively, of sales tax amounts that were collected one month prior to the month in which the returns were perfected. Sales tax amounts collected for returns not yet perfected are not distributed to the local governments until after the perfection process, regardless of when the cash was collected. As such, there are always differences between the cash collected in the month prior to the measurement period (per CAS) when compared to the perfected returns (GenTax).

The monthly cash information associated with the perfected returns (obtained from the GenTax system) is used to determine the amount of sales tax distributed to the local governments. This distribution requirement is compared to the deposits made per CAS in the previous month (deposited in the local government funds based on the estimates - see explanation in paragraph two above). Any shortage (or excess) is allocated from/to the 2% reserve which has been set aside for this purpose. Amounts remaining in the 2% reserve after this “true-up” are then allocated to the various State funds. During FY10, the Department processed approximately \$12 billion in sales tax collections.

During testing, we noted the Department does not perform a **monthly** reconciliation or review of sales tax deposit records per their consolidated accounting system (CAS) to sales tax cash records in their GenTax system, for the perfected returns used to make sales tax distributions to the local governments. Although cash recorded in each of the systems is compared each day, with differences investigated, there is not a monthly reconciliation between the two systems to ensure all variances between the systems are legitimate, explainable timing differences.

Although we were able to conclude that there were no material misallocations of sales tax receipts to the various funds in FY2010, due to the limitations described above the Department could potentially misallocate sales tax collections among State funds, including the General Revenue Fund, the Special Account for the Common School Fund, the Illinois Tax Increment Fund, the Build Illinois Fund, and the various local government funds and not detect and correct it in a timely fashion.

The Use Tax Act (35 ILCS 105/9), Service Use Tax Act (35 ILCS 110/9), Service Occupation Tax Act (35 ILCS 115/9), and Retailers' Occupation Tax Act (35 ILCS 120/3) require the Department allocate State sales tax pursuant to the following methodology:

- Net Revenues Realized from State Sales Tax Collections
 - Less: Department's Estimation of Increased Tax Receipts from the Tax Increase on Soda, Candy, and Grooming Products to the Capital Projects Fund
 - Less: 5.55% of the Total Remaining Funds to the Build Illinois Fund
 - 0.27% of Net Revenues Realized to the Illinois Tax Increment Fund
 - Specified Monthly Installment (determined by the State Treasurer), up to a yearly maximum of \$139 million, to the McCormick Place Expansion Project Fund

10-8. FINDING (Inadequate Control over State Sales Tax Allocations - Continued)

- Funds Remaining after Previous Allocations
 - For Collections from the Use Tax Act and Retailers' Occupation Tax Act
 - 25% to the Special Account for the Common School Fund
 - 75% to the General Revenue Fund
 - For Collections from the Service Use Tax Act and Service Occupation Tax Act
 - 100% to the General Revenue Fund

In accordance with Generally Accepted Accounting Principles (GAAP), all assets, liabilities, revenues, and expenses should be properly recorded in the proper fund in the financial statements. The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires State agencies to establish and maintain a system of fiscal and administrative controls to provide assurance that 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.

Department management said that while it does not perform reconciliations of actual processed return data to daily deposits because it is not practical, the Department does perform a litany of reconciliations to ensure that the funds are deposited and recorded accurately by tax type and in aggregate.

Failure to identify and analyze differences between fund deposits of sales tax collections per CAS with perfected return data from GenTax could lead to significant unidentified deposit and other errors, increasing the likelihood that cash is not allocated properly to State funds, local government funds, and fiduciary funds. (Finding Code No. 10-8)

RECOMMENDATION

We recommend the Department perform a monthly comparison of detailed data from the GenTax system (perfected return data) to the previous month's cash detail per CAS. This information should be reviewed to ensure all noted differences in the data is reasonable and reflects an explainable timing difference between the date in which cash is collected for a sales tax return versus the date in which the collected cash has been associated with a perfected return. This information should be reviewed by a supervisor and unusual/unexpected differences should be investigated. Any material differences should also be reviewed to determine if they impact the allocation of the 2% reserve funds for sales tax.

DEPARTMENT RESPONSE

The Department disagrees with the auditor's assertion that we did not exercise adequate control over deposit allocations and reconciliations of state sales tax. We conduct multiple reconciliations to assure that we are recording and depositing the correct amount of tax. The timely deposit of receipts and accurate distribution of funds is a critical mission for the Department of Revenue and a function that the Department takes seriously. The Department has used the same deposit and reconciliation process for at least 20 years adapting to the new GenTax system as necessary. The Department processed \$29 billion in total receipts with 19.2 million documents following this process during FY10.

10-8. FINDING (Inadequate Control over State Sales Tax Allocations - Continued)

The following is a brief outline of this process:

AUDITOR'S COMMENT: As per the Department, they "processed \$29 billion in total receipts with 19.2 million documents following this process during FY10," making the reconciliation of State sales tax, approximating \$12 billion, a material and significant revenue source that should, in our opinion, be reconciled to tax return data for proper fund allocation and deposit. Additionally, under the present system, the potential for a material misstatement in financial reporting remains. In regards to the Department stating they have "used the same deposit and reconciliation process for at least 20 years adapting to the new Gen Tax system as necessary," the Department did not, in our opinion, account for increases in the capability of technology allowing for the full reconciliation of receipts to deposits into the State Treasury or recognize significant statutory changes to the allocation of Sales Tax deposits in **October 2009**. As stated in both the *Independent Auditor's Report* and the *Independent Accountants' Report on State Compliance, on Internal Control over Compliance, and on Supplementary Information for State Compliance Purposes*, our examination is performed on a test basis, and as such, will not discover every instance of noncompliance in every audit period. The auditor's select only a sample of statutory mandates in each audit cycle out of the several hundred imposed by State law on the Department.

Returns/Receipts received in house:

Daily:

1. Returns/receipts are received, separated by payment/tax type, batched by RPS or Check 21 or hand validation.
2. Batch file is balanced with actual deposit information.
3. Batch file is transferred to the Consolidated Accounting System (CAS) which accounts for all deposits by tax type and clearing account
4. Batch file is transferred to applicable tax system.
5. Batch file is reconciled between applicable tax system and CAS.
6. Deposit is sent to Bank by clearing account (GL – we have 84 clearing accounts).
7. Deposit report from all deposit institutions (DC&D, Chicago, EFT, lock box,)
8. Verify deposit tickets to summary remittances (batch details) previous days work.
9. Receive tax adjustment/BMS fund transfer reports, return bank items, record in CAS.
10. Perform daily draft function and request non negotiable from STO (demand draft vs automatic draft in Excise Taxes).
11. Enter fund distribution information into CAS.
12. Shared Services balances CAS fund/receipt information to STO non negotiable documents.
13. Generate Receipt Deposit Transmittals (C-64s) and submit via disk/hardcopy to Comptroller.

Weekly:

1. Receive STO GL 300 report of all deposits for the previous week.
2. Generate weekly CAS journals and verify deposits against the GL 300 reports.
3. FCB reconciles STO GL300 to CAS cash journals.

Monthly:

1. Reconcile monthly deposits to GenTax reports (comparing batch to batch).
2. Shared Services reconciles all CAS deposits to STO GL 350 (monthly).
3. Shared Services reconciles all receipts to collections reconciliations (monthly in transit).
4. Shared Services performs a non-shared fund reconciliation – reconciles CAS C-64's receipts and AIS payments to IOC fund balance.
5. Shared Services performs a verification of fund distributions by comparing monthly fund splits per IOC to a recalculation of percentages.

**State of Illinois
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Schedule of Findings
For the Year Ended June 30, 2010**

10-8. FINDING (Inadequate Control over State Sales Tax Allocations - Continued)

6. LTAD prepares and forwards monthly allocation documentation to Shared Services personnel.
7. Shared Services uses CAS receipts report by clearing account to reconcile with allocations certified by LTAD for local government distributions.
8. 2% worksheets are used to determine availability of clearing account balance by bank to meet monthly distribution and 2% allocations worksheet is forwarded to FCB.
9. A monthly 2% draft worksheet is prepared deposit funds needed to meet distributions to local governments and state funds.

While it is not practical to reconcile a total daily deposit batch to our tax processing system in total after all returns are “perfected”, we can trace any individual receipt to a deposit batch if required and vice versa. We also perform a myriad of reconciliations and reasonableness reviews to ensure that deposits are calculated and posted as intended per statutes and balance to daily and monthly deposit batch totals in GenTax and CAS to make adjustments for movement between tax types and funds, and perform a reasonable test of all deposits with statutory calculations

10-9. FINDING (Inadequate Controls over Receipt Processing and Taxpayer Information)

The Department of Revenue (Department) has not implemented adequate controls and safeguards over tax receipt processing and taxpayer information. During FY10, the Department received and processed 3.4 million tax receipt documents, totaling over \$4.4 billion, at their Springfield and Chicago locations.

During testing, we noted several internal controls and physical safeguards were not in place to protect taxpayer receipts and taxpayer information. We specifically noted deficiencies in the following areas:

Receipt Processing

- All receipt documents were not received and processed with adequate monitoring and security controls. The Department receives the majority of the tax receipts through the Document Control and Deposit (DC&D) section. However, receipts were initially received and processed by various other areas within the Department. The DC&D section and the other areas receiving receipts did not have adequate controls in place to adequately monitor and safeguard receipt documents. Additionally, the Department hires various temporary employees throughout the year and both temporary and full-time employees are allowed to have mobile devices (cell phones with cameras) and other personal belongings while processing taxpayer receipts and information.
- Appropriate segregation of duties over taxpayer receipts received outside of DC&D did not exist. Individuals in the processing areas could receive payments and adjust accounts in GenTax. Additionally, all accounts do not require supervisory review and verification of adjustments.

Monitoring

- Management does not have a true tracking of receipts received in processing areas, specifically lacking the ability to identify the locations, dollar amount, or number of receipts processed at various locations throughout the Department. Without this information, the Department lacks the ability to monitor the receipt processing in the various areas for unusual trends, errors, or discrepancies.

Physical Safeguards

- Physical safeguards to control general public access to tax processing areas, including those accessing daycare and restaurant services, were not implemented. We noted the Department is unable to prevent undetected entry by unauthorized persons during duty and non-duty hours in the Tax Processing and Document Control and Deposit areas.
- Physical safeguards over tax returns and taxpayer information were lacking. We noted taxpayer files are stored on desks and open shelving units and are not locked or secured from other Department employees or other individuals who enter the building past the security checkpoints. Department personnel and the other individuals who enter the building past the security checkpoints should not have access to these areas if they are not authorized to access tax information.
- The Department's Document Control and Deposit area leaves checks and tax return information received out on tables or laying on vertical shelving units in unprotected areas. This information and documents are accessible (specifically, lacking access controlled barriers) to all Department employees, including Lottery employees and Liquor Control Commission employees, as well as Secretary of State and Department of Central Management Services employees.
- Taxpayer payments were stored in an open bin in a readily accessible hallway within a tax processing area.
- The Department lacked a fully functional security system to protect tax receipts and taxpayer information.

10-9. FINDING (Inadequate Controls over Receipt Processing and Taxpayer Information Continued)

In contrast to the weak controls over State tax information, federal tax information was subject to strict physical security controls. These controls included:

- Physically maintaining tax returns in a secure area with limited access. Tax returns are maintained within secure cabinets and bins; the information was not left in the open.
- Employees are not allowed to have cameras or personal belongings within the secure area.

The Internal Revenue Service has determined the taxpayer's State tax information must be retained in the same strict requirements as the taxpayer's federal tax information where the federal tax information has been commingled with State tax information as defined in the Internal Revenue Service's Publication 1075, Tax Information Security Guidelines for Federal, State, and Local Agencies and Entities, Safeguards for Protecting Federal Tax Returns and Return Information. As such, the Department is required to ensure all commingled tax information is protected in accordance with the Internal Revenue Service's Publication 1075. Publication 1075, Section 4.1, requires the adequate protection of tax information from unauthorized disclosure. Specifically, "security may be provided for a document, an item, or an area in a number of ways. These include, but are not limited to, locked containers of various types, vaults, locked rooms, locked rooms that have reinforced perimeters, locked buildings, guards, electronic security systems."

Generally accepted audit guidance endorses the development of adequate internal control procedures to ensure proper segregation of duties and supervisory review. In addition, well-designed and well-managed controls to protect physical facilities and sensitive information should be implemented. Also, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires State agencies to establish and maintain a system of fiscal and administrative controls to provide assurance that "funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation."

Department officials stated that when the Willard Ice Building was designed with an open architecture floor plan 30 years ago, the IRS Publication 1075 did not exist as it does today. The Department has established guards and restricted access to the building to ensure that the public and unapproved State employees are not gaining access to our buildings. The modern floor plans and consolidations of agencies over the last 8 years (CMS IT consolidation, Lottery, Liquor Control Commission, Shared Services and CMS Print Shop) has compounded the issue and has resulted in a review of security by the Department.

The Department has the responsibility to ensure only authorized individuals have access to taxpayer information and taxpayer receipts. Failure to establish adequate security controls could result in taxpayer identity theft or unintended use and the misappropriation of taxpayer payments. (Finding Code No. 10-9)

RECOMMENDATION

We recommend the Department implement controls to ensure:

- Receipt processing is received and processed in a centralized location with adequate monitoring and security controls. Management should also monitor the receipt process for errors or irregularities and any necessary improvements.
- Segregation of duties exist over the receipt and recording of taxpayer payments and information.
- Tax processing and payment areas are adequately secured and limited to authorized individuals by eliminating unnecessary traffic through critical areas and thereby reducing the opportunity for unauthorized disclosure or theft.
- Taxpayer information is adequately stored and protected during both duty and non-duty hours from unauthorized access.
- Individuals authorized to access taxpayer information are restricted from bringing personal items and mobile devices into the tax processing areas.

10-9. **FINDING** (Inadequate Controls over Receipt Processing and Taxpayer Information - Continued)

DEPARTMENT RESPONSE

The Department disagrees with the finding that it does not have adequate controls and protections in place, but it agrees that safeguarding of receipts and taxpayer information is critical and can always be improved. The Department is in the process of hiring a Chief Information Security Officer to oversee assuring that taxpayer information is protected.

AUDITOR'S COMMENT: While the Department disagrees with the finding that it does not have adequate controls and protections in place over taxpayer receipts, the bullets in the finding depict significant deficiencies in their internal controls over receipt processing and taxpayer information. Internal Revenue Service Publication 1075 details strict security and processing controls over taxpayer information the Department does not currently have in place.

Specifically:

- We disagree all receipts can be processed in a centralized area without drastically slowing the process of resolving taxpayer issues. The Department directs taxpayers to send payments to the Document Control & Deposit section (DC&D). However, taxpayers responding to general correspondence occasionally send payments elsewhere in the Department. In essence, the auditor's issue involves roughly 0.1% of payments received through correspondence with taxpayers. Without slowing the resolution of taxpayer accounts (see finding 10-5 that involves needs to resolve accounts very quickly), all mail cannot be directed through DC&D.

AUDITOR'S COMMENT: The auditor's concerns address all \$4.4 billion received at the Chicago and Springfield locations, and not just payments received from correspondence. The Department needs to review their transaction process flows, including the Document Control and Deposit Area, for necessary improvements in security and controls. The Department needs a centralized location for the receipt, processing, and protection of all receipts received to ensure they are deposited into the State Treasury. During the exit conference, we discussed past incidents where employees left the Department and taxpayer checks were found in their desk drawers at later dates.

The Department of Revenue utilizes a minimum of **65 different addresses** to direct payments, correspondence, and general mail. In FY2010, the Department processed 19.2 million tax documents and deposited \$28.5 billion. Of this amount the majority of the receipts are **deposited immediately** through various electronic commerce processes totaling \$21.1 billion (74% of total receipts). The Department agrees it can improve reporting and monitoring of receipts for the tiny fraction of payments received outside of DC&D.

- The Department agrees to see whether further segregation of duties is needed for employees who both adjust accounts and occasionally receive a check.

AUDITOR'S COMMENT: The Department agreed to see whether further segregation of duties is needed for employees who can adjust accounts and receive checks. Good internal controls would not allow one individual to have the authority to both receive taxpayer payments and adjust the taxpayer's account. The auditors noted the Department reported that three processing areas received 5,086 payments, totaling \$9.4 million. The auditors deem these transactions as more than "occasionally receiv[ing] a check."

**State of Illinois
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10-9. FINDING (Inadequate Controls over Receipt Processing and Taxpayer Information - Continued)

- The Department plans to work to further enhance the security of the tax environment – beyond the currently secure building with security guards, badge requirements, and employee training – as part of its efforts to comply with IRS Publication 1075.
- The Department agrees to review and discuss with the bargaining unit restricting from the workplace personal items that could erode security.

**State of Illinois
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10-10. FINDING (Noncompliance with the Public Utilities Revenue Act)

The Department of Revenue (Department) did not calculate and timely issue the invested capital tax on the distribution of electricity credit (tax credit), leading to an unrecorded \$18.7 million liability in the Department's June 30, 2010 financial statements.

During testing, we noted the following:

- The Department did not timely compute the tax credit.

Tax Year	Statutory Due Date	Date Calculated	Days Late	Credit Amount
2007	December 1, 2008	March 4, 2010	458	\$21,948,112
2008	December 1, 2009	January 24, 2011	419	\$18,705,689

- The Department did not record the corresponding liability of \$18.7 million for the tax year 2008 tax credit in the Department's Personal Property Tax Replacement Fund (Fund 802) GAAP package at June 30, 2010.
- The Department did not have adequate procedures governing the computation or issuance of the tax credit to ensure it was done on an annual basis.

The Public Utilities Revenue Act (35 ILCS 620/2a.1(c)) requires the Department to calculate the tax credit for all taxpayers who paid invested capital tax on the distribution of electricity during the preceding tax year by December 1 and adopt reasonable regulations to implement the law. Further, the Department is mandated to calculate the tax credit pursuant to the following statutory formula:

- 1) Invested Capital Tax on the Distribution of Electricity Receipts for the Year
- 2) Less: The lesser value from the calculations below:
 - a) \$145,279,553 plus 5%; or,
 - b) \$145,279,553 plus the Consumer Price Index's percentage increase during the year.
- 3) Total: Aggregate Excess Amount to be Issued as Credit Memoranda to Taxpayers

The Department distributes the aggregate excess amount to taxpayers in proportion to the amount of taxes paid by the taxpayer in proportion to the total amount paid by all taxpayers, after removing the effects of any tax credit utilized during the tax period.

In accordance with Generally Accepted Accounting Principles (GAAP), all assets, liabilities, revenues, and expenses should be recorded in the financial statements. The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires State agencies to establish and maintain a system of fiscal and administrative controls to provide assurance that 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.

Department personnel stated this was an oversight that these tax credits were not issued in a timely manner.

Failure to timely calculate and issue the tax credit to taxpayers pursuant to regulations adopted by the Department is noncompliance with the Public Utilities Revenue Act and resulted in an unrecorded liability in the Department's financial statements. (Finding Code No. 10-10)

10-10. FINDING (Noncompliance with the Public Utilities Revenue Act - Continued)

RECOMMENDATION

We recommend the Department:

- prepare a year-end closing checklist that details all the required year-end adjustments, the source documents used to prepare the adjustments, the related accounting policy (if any) and any other helpful information;
- implement controls to ensure all statutory tax credits are timely calculated and issued to taxpayers in accordance with State law; and,
- record liabilities from tax credits in the Department's financial statements.

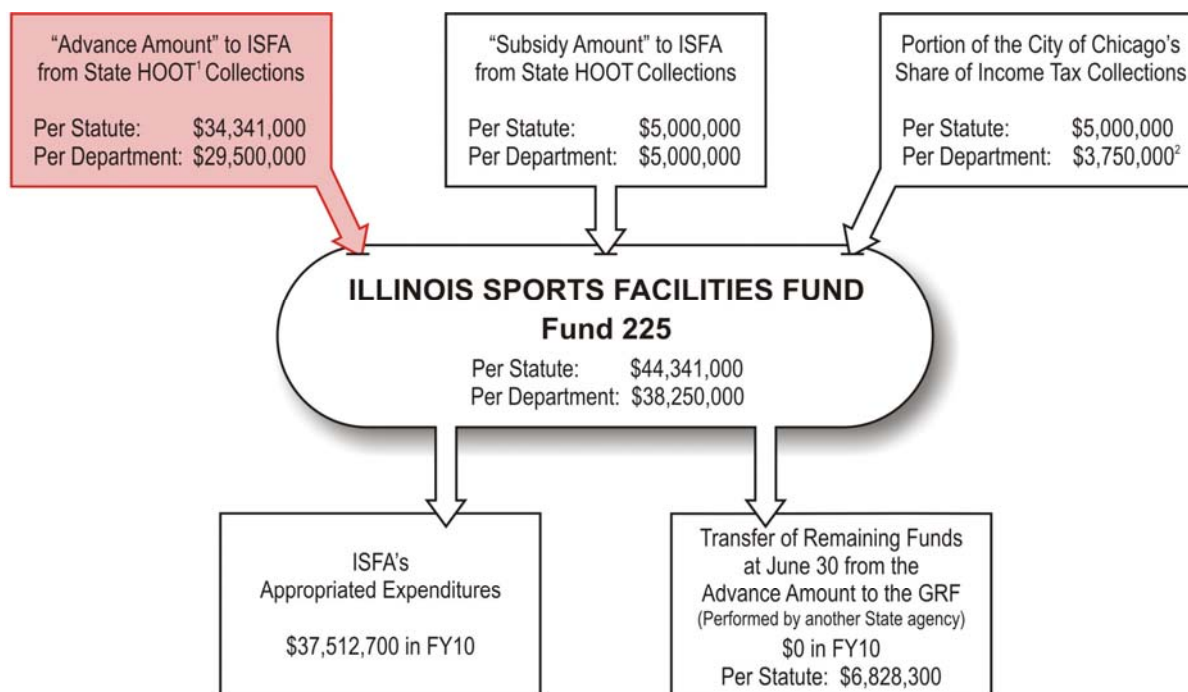
DEPARTMENT RESPONSE

The Department agrees that a checklist should be maintained to identify year-end adjustments and record the appropriate liabilities in the financial statements. The manual process of calculating the tax credits will become systemic when excise taxes are brought into the new GenTax system in June 2011.

10-11. FINDING (Inadequate Control over Illinois Sports Facilities Authority Funds)

The Department of Revenue (Department) did not exercise adequate control over the Illinois Sports Facilities Fund or the Sports Facilities Tax Trust Fund.

During testing, we noted the Department did not deposit the entire statutory “advance amount” into the Illinois Sports Facilities Fund from the State’s share of Hotel Operators’ Occupation Tax (HOOT) receipts. During FY10, the Department deposited only \$29,500,000 of the \$34,341,000 statutorily required advance. The mandated amounts and the Department’s amounts are depicted graphically below:



Shading indicates noncompliance

¹ Hotel Operators’ Occupation Tax

² The receipt of the City of Chicago’s share of income tax collections was delayed due to cash flow issues in the General Revenue Fund

• OAG analysis of the Hotel Operators’ Occupation Tax (35 ILCS 145/6) and the State Finance Act (30 ILCS 105/8.25-4)

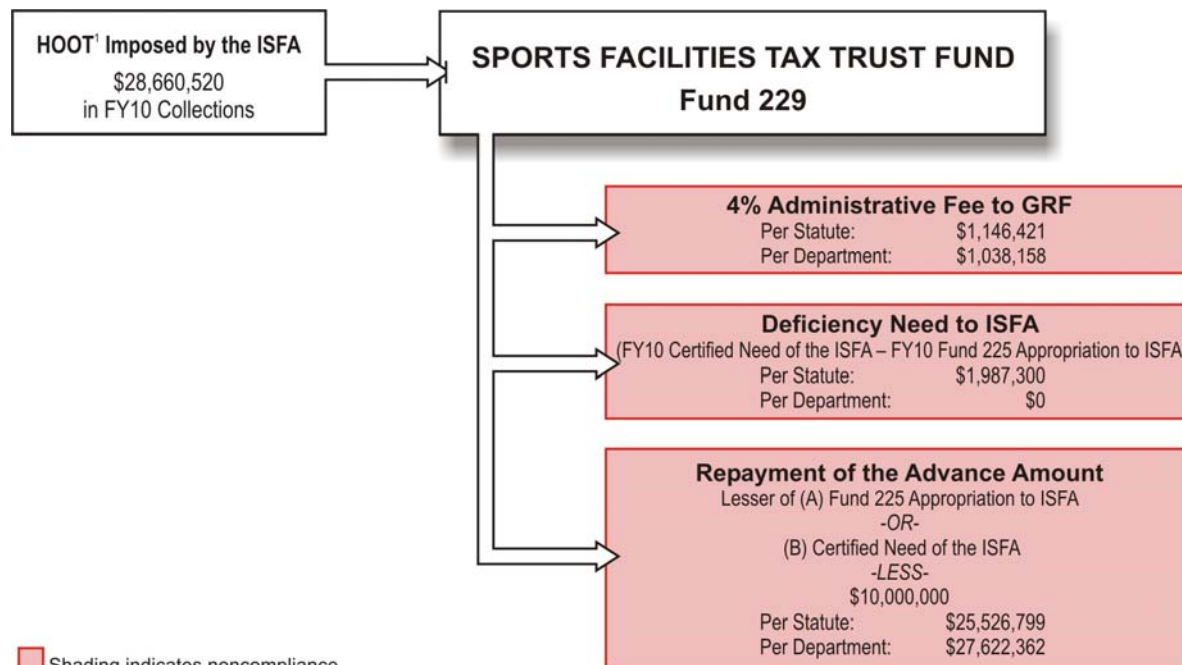
The Hotel Operators’ Occupation Tax Act (35 ILCS 145/6) requires the Department to deposit the annual “advance amount” from FY02 through FY32 pursuant to a statutory formula from the State’s share of Hotel Operators’ Occupation Tax. During FY10, the Department should have deposited \$34,341,000.

As a result of overstating the eliminating entries for the activity related to the advance amount, an adjustment of approximately \$6.2 million to increase revenues and expenditures in Fund 225 was proposed to the Department. The auditor’s adjustment was for the subsidy amount to the Illinois Sports Facilities Authority (ISFA) (\$5 million) and the unrecorded portion of the City of Chicago’s share (\$1.2 million) along with an adjustment of approximately \$1.2 million to increase taxes receivable and intergovernmental liabilities. These adjustments were deemed immaterial and were not recorded by the Department.

The adjustments were to gross up the amount of revenues and expenditures recorded in the fund which represented revenues earned and expenditures incurred, in accordance with generally accepted accounting principles.

10-11. FINDING (Inadequate Control over Illinois Sports Facilities Authority Funds – Continued)

During testing, we noted distribution errors of receipt collections from the Hotel Operators' Occupation Tax imposed by the ISFA deposited into the Sports Facilities Tax Trust Fund, as depicted graphically below:



Shading indicates noncompliance

¹ Hotel Operators' Occupation Tax

• OAG analysis of the Illinois Sports Facilities Act (70 ILCS 3205/19)

The Illinois Sports Facilities Authority Act (70 ILCS 3205/19) requires the Department:

- 1) retain 4% of receipts as an administrative fee for deposit into the General Revenue Fund;
- 2) distribute the deficit of the ISFA's certified need after removing appropriations to the ISFA from the Illinois Sports Facilities Fund;
- 3) repay the General Revenue Fund for the "advance amount" paid to the ISFA from the Illinois Sports Facilities Fund pursuant to a statutory formula; and,
- 4) distribute remaining funds to the ISFA.

Department personnel stated that staff has worked with ISFA for years to ensure that the Department deposited the advance payment based on the certified amount and then required repayment to GRF throughout the fiscal year until the advance payment was satisfied. The Department received confirmation from the ISFA CFO documenting their agreement with the Department's process and handling of the advance payments. Although the Department received a confirmation from IFSA, the auditors believe the Department was still obligated to comply with statutory requirements regarding deposits.

Failure to administer the Illinois Sports Facilities Fund and Sports Facilities Tax Trust Fund in accordance with statute led to deposit and distribution errors. (Finding Code No. 10-11)

RECOMMENDATION

We recommend the Department implement controls to ensure the Department's deposit and distribution activity from the Illinois Sports Facilities Fund and Sports Facilities Tax Trust Fund are performed accurately.

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10-11. **FINDING** **(Inadequate Control over Illinois Sports Facilities Authority Funds – Continued)**

DEPARTMENT RESPONSE

The Department believes that it has implemented the law as it was intended and as all parties have agreed it should be implemented. We will – because we believe no one intended to have \$4.8 million sit in a fund for a year – work with the General Assembly and the Illinois Sports Facility Authority to clarify the language. The Department has implemented a monthly review checklist and reconciliation process that will ensure that all excess need/distributions to ISFA and administrative fees for GRF are processed timely.

AUDITOR’S COMMENT: Per the finding as noted, the General Assembly specified amounts to be paid into the Illinois Sports Facilities Authority Fund. It is unclear as to whom “all parties” are as referenced by the Department, or the relevancy to this statutory requirement. The primary responsibility of State agencies is to administer functions given to them by the General Assembly in accordance with State law as written. If the Department believes the statutes need to be amended, they should seek a legislative remedy.

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 Schedule of Findings
 For the Year Ended June 30, 2010**

10-12. FINDING (Inadequate Controls over Taxes Collected for Local Governments)

The Department of Revenue (Department) did not exercise adequate control over the deposit and allocation of locally-imposed School Facility Occupation Taxes (SFOT), Flood Prevention Occupation Taxes (FPOT), or Metro-East Mass Transit District fees.

During testing, we noted:

- The Department did not consider the cash basis effects of changing their deposit process for SFOT or FPOT, did not properly correct prior year cash deposit errors identified and reported during the FY09 audit and examination, and did not correct deposit errors occurring during FY10.

The Counties Code (55 ILCS 5/5-1006.7(d)) requires the Department to **immediately** pay over all SFOT collections to the State Treasurer, depositing 98% into the School Facility Occupation Tax Fund and 2% into the Tax Compliance and Administration Fund. In addition, the Flood Prevention District Act (70 ILCS 750/25(f)) requires the Department to **immediately** pay over all FPOT collections to the State Treasurer, depositing 98% into the Flood Prevention Occupation Tax Fund and 2% into the Tax Compliance and Administration Fund.

- *Tax Compliance and Administration Fund (Fund 384)*: Four of 24 (17%) deposits of the 2% administration fee were not correctly deposited by the Department into Fund 384, as noted below:

Tax Type	Distribution Month	Actual Department Deposits	Department Calculated Deposits	Over(Under) Deposit
SFOT	August 2009	\$0	\$10,230	(\$10,230)
SFOT	March 2010	\$12,233	\$15,120	(\$2,887)
FPOT	August 2009	\$0	\$17,853	(\$17,853)
FPOT	March 2010	\$18,225	\$22,944	(\$4,719)
				(\$35,689)

- In addition, the Department did not correct FY09 deposit errors into Fund 384 from FPOT collections reported during the FY09 audit and examination, totaling \$14,114. Further, the Department overcorrected FY09 deposit errors into Fund 384 from SFOT collections reported during the FY09 audit and examination, totaling \$11,656.
- *School Facility Occupation Tax Fund (Fund 498) and Flood Prevention Occupation Tax Fund (Fund 558)*: Fund 498 and Fund 558 should have approximately two months of tax collections in the cash balance at June 30, 2010. The two months of collections represent tax collections paid by taxpayers to the Department in May and June 2010 that are not distributed to local governments until July and August 2010.
- In late June 2010, the Department changed the deposit process for SFOT and FPOT collections to align the deposit process to the same process used by the Department for other funds receiving allocations of sales taxes collected on behalf of local governments. Prior to the change, the Department only deposited the exact amount of cash due to local governments in the current month to cover cash collections received by the Department two months prior. After the change, the Department allocates 98% of sales tax collections to the various funds receiving sales tax collections and uses a 2% reserve to adjust fund balances to the perfected return data two months later. When the Department changed the deposit process, the Department did not continue to deposit the exact amount due to the local governments in July and August 2010 from cash collections in May and June 2010.

State of Illinois
 Department of Revenue
 Schedule of Findings
 For the Year Ended June 30, 2010

10-12. FINDING (Inadequate Controls over Taxes Collected for Local Governments – Continued)

The net cash deficiency at June 30, 2010 as a result of these errors is as follows:

Tax Compliance and Administration Fund (Fund 384)		
	SFOT	FPOT
Error Due to Change in Deposit Process	\$85,026	\$38,917
FY10 Deposit Errors (August 2009 and March 2010)	\$13,117	\$22,572
FY09 Deposit Errors (February 2009 and April 2009)	\$8,552	\$14,114
FY10 Department Correction (May 2010)	(\$20,208)	\$0
Cash Deficiency at June 30, 2010	\$86,487	\$75,603

School Facility Occupation Tax Fund (Fund 498)	
Error Due to Change in Deposit Process	\$3,861,444
Cash Deficiency at June 30, 2010	\$3,861,444

Flood Prevention Occupation Tax Fund (Fund 558)	
Error Due to Change in Deposit Process	\$1,500,480
Cash Deficiency at June 30, 2010	\$1,500,480

In discussing this exception with Department management, they stated the local governments received the correct disbursements and the cash balances would have been correct by September 2010. The Office of the State Comptroller's SB05 Cash Reports for the month ending October 2010 do not reflect a cash balance of approximately two months of cash collections in either fund, as detailed below:

October 2010 Cash Transactions				
Fund	Beginning Balance	October Collections	August Distribution	Ending Balance
498	\$935,054	\$1,973,349	\$2,092,623	\$815,780
558	\$993,184	\$764,465	\$895,275	\$862,374

- During testing, we noted the Department did not retain any administration fee receipts from the fee imposed on tangible personal property that is titled or registered with a State agency within the Metro-East Mass Transit District. Since the imposition of the fee in FY05, the Department should have deposited \$63,080 on a cash basis into the Tax Compliance and Administration Fund.

The Local Mass Transit District Act (70 ILCS 3610/5.01(d-7.1)) requires the Department to retain 2% of receipts (4% for the first 12 months) from the fee imposed on tangible personal property that is titled or registered with a State agency for deposit into the Tax Compliance and Administration Fund.

Department personnel stated the failure to retain the administrative fee for the Metro-East Mass Transit District was an oversight.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires State agencies to establish and maintain a system of fiscal and administrative controls to provide assurance that 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.

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10-12. FINDING (Inadequate Controls over Taxes Collected for Local Governments – Continued)

Failure to exercise adequate control over the deposit and allocation of local tax collections led to deposit errors among several funds. (Finding Code No. 10-12, 09-10)

RECOMMENDATION

We recommend the Department implement controls to ensure the Department complies with statutory requirements regarding the allocation of tax receipts and fees into various funds.

DEPARTMENT RESPONSE

The Department agrees with deposit errors as noted by the auditors in the Tax Administration and Compliance Fund. The Department notes that local governments received the proper amounts of School Facility and Flood Prevention Occupation Tax. The Department has developed a checklist so that monthly transactions are reviewed and appropriate transfers/deposits and vouchers are processed based on actual return data as received. Any discrepancies noted will be processed as receipt adjustments. The Department also agrees that it neglected to retain the administrative fees for the MED fees.

**State of Illinois
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Prior Findings Not Repeated
For the Year Ended June 30, 2010**

A. **FINDING** (Inaccurate Calculation of Year-end Liability)

During the prior audit period, the Department of Revenue (Department) overstated its liability to local governments for Personal Property Replacement Tax collections that were received and deposited, but not earned as of year-end. The auditor proposed and the Department recorded an adjustment of \$84 million to correct the error.

During the current audit period, the Department implemented procedures to address revenue recognition related to Personal Property Replacement Tax collections. (Finding Code No. 09-1)

B. **FINDING** (Inadequate Controls over Refunds)

During the prior audit period, the Department of Revenue (Department) did not exercise adequate controls over recording, reporting, and distributing income tax refunds to taxpayers.

During the current audit period, the Department improved controls over refunds. The auditors uncovered smaller, immaterial conditions of noncompliance that will be reported in the Letter of Immaterial Findings. (Finding Code No. 09-3)

C. **FINDING** (Lack of Formal Business Rules)

During the prior audit period, the Department of Revenue (Department) lacked established, formal, business rules, policies, and procedures relating to certain accounting practices.

During the current audit period, the Department improved upon the documentation of its rules, policies, and procedures. (Finding Code No. 09-4)

D. **FINDING** (Unrecorded Interest Amounts)

During the prior audit period, the Department of Revenue (Department) did not properly post and record interest calculations for financial reporting purposes as of June 30, 2009.

During the current audit period, the Department's GenTax system, based upon sample test work, generally posted and recorded interest transactions for financial reporting purposes as of June 30, 2010. (Finding Code No. 09-5, 08-6)

E. **FINDING** (Deficiencies in GenTax)

During the prior audit period, the Department of Revenue (Department) did not have sufficient internal control over GenTax functions, which affected the integrity of processing taxpayer information, financial data, and financial reporting.

During the current audit period, the auditors uncovered less significant conditions of noncompliance that will be reported as noncompliance with specific laws, rules, or regulations. (Finding Code No. 09-6, 08-9)

F. **FINDING** Weakness in the Development of GenTax

During the prior audit period, the Department of Revenue (Department) had not ensured the development process and project management of the enterprise wide tax system (GenTax) was properly controlled and documented.

The Department has added some documentation supporting the system. The portion of this finding not implemented has been moved to the State compliance report. (Finding Code No. 09-7)

G. **FINDING** Inadequate Change Control Process

During the prior audit period, the Department of Revenue (Department) had not ensured the change management process for the Enterprise wide tax system (GenTax) was properly controlled and documented.

The Department has updated portions of its change management system. The portion of this finding not implemented has been moved to the State compliance report. (Finding Code No. 09-8)

H. **FINDING** (Inaccurate Cigarette Tax Allocations)

During the prior audit period, the Department of Revenue (Department) did not allocate cigarette tax collections pursuant to statute. The Department had multi-million dollar deposit errors between the General Revenue Fund, Long-Term Care Provider Fund, and Common School Fund.

During the current audit period, the Department implemented procedures to reconcile cigarette tax collections to deposit collections pursuant to statute. (Finding Code No. 09-9)

I. **FINDING** Payments to County Officials

During the prior audit period, the Department of Revenue (Department) was unable to comply with statutory requirements regarding payments to certain county officials due to insufficient appropriations and did not report the corresponding liabilities to the State Comptroller for the year-end financial reporting.

During FY2010, liabilities to county officials were appropriately recorded however there were certain non-compliances with the Act which are reported in the State Compliance Report. (Finding Code No. 09-11)

J. **FINDING** The Department Did Not Ensure GAAP Packages and Draft Financial Statements Were Complete and Accurate

During the prior audit period, there were numerous errors in accounting reports submitted to the Office of the State Comptroller (Generally Accepted Accounting Principles (GAAP) package forms) and draft financial statements that were given to the auditors.

The Department added additional review procedures to the GAAP reporting process. (Finding Code No. 09-12)