

STATE OF ILLINOIS
DEPARTMENT OF REVENUE

FINANCIAL AUDIT

For the Year Ended June 30, 2013

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

STATE OF ILLINOIS
DEPARTMENT OF REVENUE

FINANCIAL AUDIT

For the Year Ended June 30, 2013

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STATE OF ILLINOIS
DEPARTMENT OF REVENUE

FINANCIAL AUDIT

For the Year Ended June 30, 2013

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STATE OF ILLINOIS
DEPARTMENT OF REVENUE

AGENCY OFFICIALS

| | |
|------------------------------------|---|
| Director | Brian A. Hamer |
| Assistant Directors | Vacant |
| Associate Director | Julie O'Brien |
| Chief of Staff | Lainie Krozel |
| Chief Budget Officer | Cory Staley |
| Liquor Control Commission | Gloria Materre |
| Program Administrators: | |
| Administrative Services | Angela Oxley |
| Account Processing | O. Wayne Richie |
| Information Technology | Matthew Bell (10/6/12 - Current) Elizabeth Malloy (1/15/12 – 10/5/12) |
| Tax Enforcement | Vacant John Chambers (12/1/09 – 3/31/13) |
| Audit | Dan Hall |
| Policy and Communications Officer | Carol Knowles (1/16/13 - Current) Vacant (6/1/12 - 1/15/13) |
| Chief Information Security Officer | Brad Boroff |
| General Counsel | Gail Niemann |
| Chief Internal Auditor | Ryan McCoy (11/25/13 – Current) Vacant (9/7/13 – 11/24/13) Douglas Hathhorn (8/2/10 – 9/6/13) |

Managers:

| | |
|--------------------------|--|
| Financial Control Bureau | Kathryn Hanlon (8/16/13 - Current) Vacant (11/16/12 – 8/15/13) Matthew Couturiaux (8/16/11 – 11/15/12) |
|--------------------------|--|

| | |
|---------------------|---------------|
| Returns and Deposit | Patti Walbaum |
|---------------------|---------------|

Administrative and Regulatory
Shared Services Center:

| | |
|----------|--------|
| Director | Vacant |
|----------|--------|

| | |
|----------------------|--|
| Chief Fiscal Officer | Kathryn Hanlon, Acting (9/16/13 – Current) |
|----------------------|--|

| | |
|--------------------------|-----------------|
| Customer Service Liaison | Dave Klintworth |
|--------------------------|-----------------|

| | |
|--------------------------|--------------------------|
| Human Resources Director | Matthew Bilinsky, Acting |
|--------------------------|--------------------------|

| | |
|-------------------------|--------|
| Administrative Director | Vacant |
|-------------------------|--------|

| | |
|---|-----------------|
| Liquor Control Board Members (as of June 30, 2013) | Stephen Schnorf |
|---|-----------------|

Bill Morris

Amy Kurson

Maria Saldana

Donald G. O'Connell

James Pandolfi

Cynthia Cahill

Department Offices are located at:

Willard Ice Building
101 W. Jefferson Street
Springfield, IL 62702

James R. Thompson Center
100 West Randolph Street
Chicago, IL 60601

STATE OF ILLINOIS
DEPARTMENT OF REVENUE

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying financial statements of the State of Illinois, Department of Revenue as of June 30, 2013 and for the year then ended, was performed by Sikich LLP as Special Assistant Auditors to the Auditor General, State of Illinois.

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

SUMMARY OF FINDINGS

The auditors identified matters involving the Department's internal control over financial reporting that they considered to be material weaknesses and significant deficiencies. The material weaknesses and significant deficiencies are described in the accompanying Schedule of Findings listed in the table of contents as findings 2013-001 through 2013-006, summarized as follows:

| <u>Item No.</u> | <u>Page</u> | <u>Description</u> | <u>Finding Type</u> |
|-----------------|-------------|---|---------------------------|
| 2013-001 | 58 | Inaccuracies in the Department's year-end financial reporting process | Material Weakness |
| 2013-002 | 62 | Taxpayer information pending finalization | Material Weakness |
| 2013-003 | 67 | Internal control reviews of external service providers not obtained or performed | Significant Deficiency |
| 2013-004 | 69 | Controls and safeguards over the processing of taxpayer information | Significant Deficiency |
| 2013-005 | 72 | Conflict in provisions of the Illinois Income Tax Act and State Revenue Sharing Act | Significant Deficiency |
| 2013-006 | 74 | Weaknesses in controls over Sales and Use Tax receipts | Significant Deficiency |

PRIOR FINDINGS NOT REPEATED

| | | |
|---|----|---|
| A | 79 | Weaknesses in the processes over Sales and Use Tax Fund allocations |
| B | 79 | Year-end cash balances not properly recorded |
| C | 79 | Lost taxpayer audit files |

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with Department personnel at an exit conference on February 19, 2014. Attending were:

Department of Revenue

| | |
|-----------------|------------------------------------|
| Brian A. Hamer | Director |
| Julie O'Brien | Associate Director |
| Gail Niemann | General Counsel |
| Ryan McCoy | Chief Internal Auditor |
| Carol Knowles | Policy and Communications Officer |
| Brad Boroff | Chief Information Security Officer |
| Dan Hall | Audit |
| O. Wayne Richie | Account Processing |
| Angela Oxley | Administrative Services |
| Cory Staley | Chief Budget Officer |
| Macy Cousineau | Audit Liaison |

Office of the Auditor General

| | |
|-----------------|------------------|
| Paul Usherwood | Audit Manager |
| Janis Van Durme | Audit Manager |
| Megan Green | Audit Supervisor |

Sikich LLP – Special Assistant Auditors

| | |
|------------------|---------|
| Gary D. Neubauer | Partner |
| Megan Cochran | Manager |

The responses to the recommendations were provided by Ryan McCoy, Chief Internal Auditor, in correspondence dated February 25, 2014.

INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Illinois, Department of Revenue (Department), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information for the Department as of June 30, 2013, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2, the financial statements of the Department are intended to present the financial position and changes in financial position of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2013, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 2, the Department adopted Governmental Accounting Standards Board (GASB) Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position during the year ended June 30, 2013. Statement No. 63 added new classifications on the statement of net position and changes net assets to net position. Our opinions are not modified with respect to this matter.

As discussed in Note 11, the Department has the following significant fund deficits as of June 30, 2012: General Revenue Fund \$1.1 billion and Personal Property Tax Replacement Fund (non-major special revenue fund) \$212 million. The Department's plan to eliminate these deficits is highly dependent on the collection and allocation of future State revenues to the Department.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The combining General Fund schedules and nonmajor and Agency fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining General Fund schedules and nonmajor and Agency fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining General Fund, nonmajor, and Agency fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2014 on our consideration of the Department'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* in considering the Department's internal control over financial reporting and compliance.

Restricted Use of this Auditor's Report

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



Springfield, Illinois
February 25, 2014

State of Illinois
Department of Revenue

Statement of Net Position

June 30, 2013 (Expressed in Thousands)

| | Governmental Activities |
|---|------------------------------------|
| ASSETS | |
| Unexpended appropriations | \$ 17,811 |
| Cash and cash equivalents | 1,597,239 |
| Securities lending collateral equity with State Treasurer | 124,308 |
| Taxes receivable, net | 1,540,358 |
| Intergovernmental receivables | 545 |
| Other receivables, net of allowance of \$312 | 15,937 |
| Due from State funds | 35 |
| Loans and notes receivable, long-term | 41,403 |
| Due from State of Illinois component units | 324,163 |
| Inventories | 114 |
| Capital assets being depreciated/amortized, net | 19,823 |
| Total assets | 3,681,736 |
| LIABILITIES | |
| Accounts payable and accrued liabilities | 420,517 |
| Income tax refunds payable | 1,327,510 |
| Intergovernmental payables | 949,813 |
| Obligations under securities lending of State Treasurer | 124,308 |
| Due to Department fiduciary funds | 56,934 |
| Due to other State fiduciary funds | 831 |
| Due to other State funds | 575,555 |
| Due to State of Illinois component units | 1,633 |
| Unearned revenue | 680,888 |
| Long-term obligations: | |
| Portion due or payable within one year | 1,200 |
| Portion due or payable after one year | 12,679 |
| Total liabilities | 4,151,868 |
| NET POSITION | |
| Invested in capital assets | 19,823 |
| Restricted - other | 27,004 |
| Unrestricted | (516,959) |
| Total net position | \$ (470,132) |

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, 2013 (Expressed in Thousands)

| Functions/Programs | Expenses | Program Revenues | | Net (Expense) |
|--|---------------------|----------------------|------------------------------------|--------------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Revenues and Changes in Net Position |
| | | | | Governmental Activities |
| Governmental activities | | | | |
| General government | \$ 208,163 | \$ 46,939 | \$ 896 | \$ (160,328) |
| Health and social services | 12,673 | - | - | (12,673) |
| Employment and economic development | 5,000 | - | - | (5,000) |
| Environment and business regulation | 7,789 | - | - | (7,789) |
| Intergovernmental-revenue sharing | 4,745,056 | - | - | (4,745,056) |
| Total governmental activities | <u>\$ 4,978,681</u> | <u>\$ 46,939</u> | <u>\$ 896</u> | <u>\$ (4,930,846)</u> |
| General revenues | | | | |
| Taxes: | | | | |
| Income taxes | | | | 21,145,488 |
| Sales taxes | | | | 9,996,846 |
| Motor fuel taxes | | | | 1,253,037 |
| Public utility taxes | | | | 1,369,039 |
| Other taxes | | | | 961,383 |
| Interest and investment income | | | | 5,142 |
| Other revenues (expenses) | | | | 17,770 |
| Appropriations from State resources | | | | 183,390 |
| Lapsed appropriations | | | | (9,909) |
| Receipts collected and transmitted to State Treasury | | | | (29,190,535) |
| Amount of SAMS transfers-in | | | | (2,459,450) |
| Amount of SAMS transfers-out | | | | 1,998,535 |
| Transfers-in less residual equity transfer | | | | 655,953 |
| Transfers-out | | | | (340,325) |
| Transfer of administration of Lottery from Department of Revenue to Department of Lottery | | | | (18,052) |
| Total general revenues and transfers | | | | <u>5,568,312</u> |
| Change in net position | | | | 637,466 |
| Net position, July 1, 2012 | | | | (1,107,598) |
| Net position June 30, 2013 | | | | <u>\$ (470,132)</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, 2013 (Expressed in Thousands)

| | <u>General Fund</u> | <u>Nonmajor funds</u> | <u>Total Governmental Funds</u> |
|---|---------------------|---------------------------|---|
| ASSETS | | | |
| Unexpended appropriations | \$ 12,166 | \$ 5,645 | \$ 17,811 |
| Cash and cash equivalents | 776,453 | 820,786 | 1,597,239 |
| Securities lending collateral equity with State Treasurer | 27 | 124,281 | 124,308 |
| Taxes receivables, net | 1,166,202 | 374,156 | 1,540,358 |
| Intergovernmental receivables | 449 | 96 | 545 |
| Other receivables, net of allowance of \$312 | - | 15,937 | 15,937 |
| Due from other Department funds | 456,690 | 247,873 | 704,563 |
| Due from other State funds | - | 35 | 35 |
| Loans and notes receivable, long-term | - | 41,403 | 41,403 |
| Due from State of Illinois component units | - | 324,163 | 324,163 |
| Inventories | 114 | - | 114 |
| Total assets | <u>\$ 2,412,101</u> | <u>\$ 1,954,375</u> | <u>\$ 4,366,476</u> |
| LIABILITIES | | | |
| Accounts payable and accrued liabilities | \$ 311,070 | \$ 109,447 | \$ 420,517 |
| Income tax refunds payable | 1,327,510 | - | 1,327,510 |
| Intergovernmental payables | 9,328 | 940,485 | 949,813 |
| Obligations under securities lending of State Treasurer | 27 | 124,281 | 124,308 |
| Due to other Department fiduciary funds | 25,523 | 31,411 | 56,934 |
| Due to other State fiduciary funds | - | 831 | 831 |
| Due to other Department funds | 585,236 | 119,327 | 704,563 |
| Due to other State funds | 573,901 | 1,654 | 575,555 |
| Due to State of Illinois component units | 46 | 1,587 | 1,633 |
| Unavailable revenue | 150,251 | 38,109 | 188,360 |
| Unearned revenue | 518,107 | 162,781 | 680,888 |
| Total liabilities | <u>3,500,999</u> | <u>1,529,913</u> | <u>5,030,912</u> |
| FUND BALANCES (DEFICITS) | | | |
| Nonspendable (Inventories) | 114 | - | 114 |
| Restricted | - | 26,890 | 26,890 |
| Committed | 149,958 | 611,753 | 761,711 |
| Unassigned | (1,238,970) | (214,181) | (1,453,151) |
| Total fund balances (deficits) | <u>(1,088,898)</u> | <u>424,462</u> | <u>(664,436)</u> |
| Total liabilities and fund balances (deficits) | <u>\$ 2,412,101</u> | <u>\$ 1,954,375</u> | <u>\$ 4,366,476</u> |

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 Position
June 30, 2013
(Expressed in Thousands)

| | | |
|---|-----------|------------------|
| Total fund balances-governmental funds | \$ | (664,436) |
| <p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p> | | |
| <p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.</p> | | 19,823 |
| <p>Revenues in the Statement of Activities that do not provide current financial resources are deferred in the funds.</p> | | 188,360 |
| <p>Some liabilities reported in the Statement of Net Position do not require the use of current financial resources and therefore are not reported as liabilities in governmental funds. These activities consist of:</p> | | |
| Compensated absences | | (13,879) |
| Net position of governmental activities | \$ | (470,132) |

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, 2013 (Expressed in Thousands)

| | General Fund | Nonmajor funds | Total Governmental Funds |
|--|-----------------------|--------------------|--------------------------------|
| REVENUES | | | |
| Federal operating grants | \$ - | \$ 896 | \$ 896 |
| Income taxes | 18,639,018 | 2,463,653 | 21,102,671 |
| Sales taxes | 7,233,547 | 2,768,558 | 10,002,105 |
| Motor fuel taxes | - | 1,254,260 | 1,254,260 |
| Public utility taxes | 1,027,252 | 342,160 | 1,369,412 |
| Other taxes | 696,691 | 264,840 | 961,531 |
| Licenses and fees | 6,313 | 37,000 | 43,313 |
| Other charges for services | - | 3,572 | 3,572 |
| Interest and other investment income | - | 3,908 | 3,908 |
| Other | 6,304 | 11,466 | 17,770 |
| Total revenues | <u>27,609,125</u> | <u>7,150,313</u> | <u>34,759,438</u> |
| EXPENDITURES | | | |
| General government | 40,476 | 163,553 | 204,029 |
| Health and social services | - | 12,673 | 12,673 |
| Employment and economic development | 5,000 | - | 5,000 |
| Environment and business regulation | - | 7,789 | 7,789 |
| Intergovernmental | - | 4,745,056 | 4,745,056 |
| Capital outlays | 5,398 | 9,101 | 14,499 |
| Total expenditures | <u>50,874</u> | <u>4,938,172</u> | <u>4,989,046</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>27,558,251</u> | <u>2,212,141</u> | <u>29,770,392</u> |
| OTHER SOURCES (USES) OF FINANCIAL RESOURCES | | | |
| Appropriations from State resources | 111,025 | 72,365 | 183,390 |
| Lapsed appropriations | (2,569) | (7,340) | (9,909) |
| Receipts collected and transmitted to State Treasury | (27,076,450) | (2,114,085) | (29,190,535) |
| Amount of SAMS transfers-in | (2,421,650) | (37,800) | (2,459,450) |
| Amount of SAMS transfers-out | 1,997,876 | 659 | 1,998,535 |
| Transfers-in | 1,055,431 | 37,969 | 1,093,400 |
| Transfers-out | (730,672) | (65,152) | (795,824) |
| Net other sources (uses) of financial resources | <u>(27,067,009)</u> | <u>(2,113,384)</u> | <u>(29,180,393)</u> |
| Net change in fund balances | 491,242 | 98,757 | 589,999 |
| Fund balances (deficits), July 1, 2012 | <u>(1,580,140)</u> | <u>325,705</u> | <u>(1,254,435)</u> |
| FUND BALANCES (DEFICITS), JUNE 30, 2013 | <u>\$ (1,088,898)</u> | <u>\$ 424,462</u> | <u>\$ (664,436)</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, 2013
(Expressed in Thousands)

| | |
|--|-------------------|
| Net change in fund balances | \$ 589,999 |
| <p>Amounts reported for governmental activities in the Statement of Activities are different because:</p> | |
| <p>Governmental funds report capital outlays as expenditures while governmental activities report depreciation/amortization expense to allocate those expenditures over the life of the assets. This is the amount by which capital outlays in the current period exceeded depreciation.</p> | 10,915 |
| <p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. This amount represents the increase in unavailable revenue over the prior year.</p> | 37,102 |
| <p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p> <p style="padding-left: 40px;">Increase in compensated absences obligation</p> | <u>(550)</u> |
| Change in net position of governmental activities | \$ 637,466 |

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

State of Illinois
Department of Revenue

Statement of Fiduciary Net Position

June 30, 2013 (Expressed in Thousands)

| | <u>Agency Funds</u> |
|---|---------------------|
| ASSETS | |
| Cash equity in State Treasury | \$ 417,572 |
| Cash and cash equivalents | 1,119 |
| Securities lending collateral equity with State Treasurer | 157,605 |
| Taxes receivable, net | 216,500 |
| Other receivables, net | 76 |
| Due from other Department funds | 56,934 |
| Total assets | <u>\$ 849,806</u> |
| LIABILITIES | |
| Accounts payable and accrued liabilities | \$ 10,811 |
| Intergovernmental payables | 680,226 |
| Obligations under securities lending of State Treasurer | 157,605 |
| Other liabilities | 1,164 |
| Total liabilities | <u>\$ 849,806</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, 2013

(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 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 Liquor Control Commission.

(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 and financial benefit or burden 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, 2013

(b) Basis of Presentation

The financial statements of the State of Illinois, Department of Revenue, are intended to present the financial position and changes in financial position of only that portion of the governmental activities, each major governmental fund of the State of Illinois, and the aggregate remaining fund information of the State of Illinois that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2013 and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Government-wide Statements. The government-wide statement of net position and statement of activities report the overall financial activity of the Department, excluding fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities of the Department. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

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

The statement of activities presents a comparison between direct expenses and program revenues for 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, and fiduciary - are presented. The emphasis on fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

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

General – This is the State's primary operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund. The Department's portion of the General Fund is composed of a primary sub-account (General Revenue) and eight secondary sub-accounts (Common School Special, Education Assistance, Illinois Sports Facility, Income Tax Refund, Common School, Predatory Lending Database Program, Municipal Economic Development and Capital Projects). The services which are administered by the Department and accounted for in the General Fund include, among others, general government services.

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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 restricted or committed to expenditures for specific purposes other than debt service or capital assets. Special revenue funds account for, among other things, taxes levied with statutorily defined distributions, federal grant programs and other resources restricted or committed as to purpose.

Fiduciary Fund Types:

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 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.

In accordance with Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, recognition of nonexchange transactions in the financial statements is required unless the transactions are not measurable (reasonably estimable) or are not probable of collection. In this regard, the Department annually has an inventory of returns (primarily income tax and sales tax), that are in various stages of processing, dispute or review at year-end and through the date of issuing the financial statements (“unperfected returns”). Potential receivables and/or refunds that may result upon perfecting the returns cannot be reasonably estimated and are not recorded. Additionally, upon perfecting the returns, cash allocations to other governmental and fiduciary funds will be required and may be material.

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Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However, principle and interest on formal debt issues, claims and judgments, and compensated absences are recorded only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Significant revenue sources which are susceptible to accrual include 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.

Taxpayers can elect to receive a refund of tax overpayments (refunds payable), or carry-forward those overpayments to be applied to tax liabilities of the next year (unearned revenue). All liabilities pertaining to tax overpayments (refunds payable and unearned revenue) are estimated based on a combination of actual data and historical trends.

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.

(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, Local Tourism Fund and Build Illinois Bond 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.

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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.

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

(f) *Cash and Cash Equivalents*

Cash equivalents are defined as short-term, highly liquid investments readily convertible to cash with maturities of 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) *Inventories*

Inventories, consisting primarily of 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.

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(h) *Interfund Transactions*

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

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

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.

(i) *Capital and Intangible 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 capital assets is \$5,000 and the estimated useful life is 3-15 years.

(j) *Compensated Absences*

The liability for compensated absences reported in the government-wide statement of net position 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.

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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.

(k) Fund Balances

It is the Department's policy to consider restricted resources to have been spent first when an expenditure is incurred for which both restricted and unrestricted (i.e. committed, assigned or unassigned) fund balances are available, followed by committed and then assigned fund balances. Unassigned amounts are used only after the other resources have been used.

Within the governmental fund types, the Department's fund balances are reported in one of the following classifications:

Nonspendable – includes amounts that cannot be spent because they are either: a) not in spendable form; or b) legally or contractually required to be maintained intact.

Restricted – includes amounts that are restricted to specific purposes, that is, when constraints placed on the use of resources are either: a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation.

Committed – includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Department's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the Department removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. The uses of these funds are established by bills passed by the legislature and approved by the Governor of the State of Illinois.

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

(l) Net Position

In the government-wide statement of net position, 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 amounts 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 amounts that do not meet the definition of "restricted" or "invested in capital assets".

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(m) Use of Estimates

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

(n) Reclassifications

The prior year balances within accounts comprising the Due to Other State Funds have been reclassified to conform to the current year's presentation.

(o) New Accounting Pronouncements

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* is effective for the Department beginning with its year end June 30, 2013. The objective of this statement is to provide financial reporting guidance for deferred outflows and inflows of resources and to rename the residual measure from "Net Assets" to "Net Position".

(p) Future Adoption of GASB Statements

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* will be effective for the Department beginning with its year end June 30, 2014. The objective of this statement is to improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting.

GASB Statement No. 66, *Technical Correction-2012-An Amendment of GASB Statements No. 10 and No. 62* will be effective for the Department beginning with its year end June 30, 2014. The objective of this statement is to resolve conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The Department has not yet determined the impact on its financial statements but it is not expected to be significant.

Effective for the year ending June 30, 2015 the Department will adopt Governmental Accounting Standards Board Statement No. 68, *Financial Reporting for Pension, Amendment of GASB Statement No.67*, which provides guidance relating to revised recognition, measurement, and disclosure requirements for all employers. The Department has not yet determined the impact on its financial statements as a result of adopting this Statement.

Effective for the year ending June 30, 2015, the Department will adopt GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, which establishes standards related to government combinations in which no consideration is provided, such as government mergers and transfers of operations; combinations in which consideration is provided, such as acquisitions of another entity or its operations; and disposals of government

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operations that have been transferred or sold. The Department has not yet determined the impact on its financial statements as a result of adopting this statement.

Effective for the year ending June 30, 2014, the Department will adopt GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, the objective of which is to improve the recognition, measurement, and disclosure guidance for state and local governments that have extended or received financial guarantees that are nonexchange transactions. The statement requires a government that extends a nonexchange financial guarantee to recognize a liability when it is more likely than not that the government will be required to make a payment on the guarantee. Additionally, the statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to recognize revenue to the extent of the reduction in its guaranteed liabilities. The Department has not yet determined the impact on its financial statements as a result of adopting this statement.

Effective for the year ending June 30, 2015, the Department will adopt GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68*, which addresses an issue regarding the application of the transaction provisions of GASB Statement No. 68. The statement clarifies the accounting for contributions to a defined benefit pension plan after the measurement date of a government's beginning net pension liability. The Department has not yet determined the impact on its 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 Position and Balance Sheets. The Department independently manages deposits and investments maintained outside the State Treasury.

(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) 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 AG to lend the State Treasurer's securities to broker-dealers and banks pursuant to a form of loan agreement.

During fiscal year 2013, Deutsche Bank AG lent U.S. Treasury & agency securities and received as collateral U.S. dollar denominated cash. Borrowers were required to deliver collateral for each

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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 fair value to 100%.

The State Treasurer did not impose any restrictions during the fiscal year 2013 on the amount of the loans available or the eligible securities. In the event of borrower default, Deutsche Bank AG provides the State Treasurer with counterparty default indemnification. In addition, Deutsche Bank AG is obligated to indemnify the State Treasurer if Deutsche Bank AG loses any securities, collateral or investments of the State Treasurer in Deutsche Bank AG's custody. Moreover, there were no losses during the fiscal year 2013 resulting from a default of the borrowers or Deutsche Bank AG.

During fiscal year 2013, the State Treasurer and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in repurchase agreements with approved counterparties collateralized with securities approved by Deutsche Bank AG and marked to market daily at no less than 102%. Because the loans are terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The State Treasurer had no credit risk as a result of its securities lending program as the collateral held exceeded the fair value of the securities lent.

In accordance with GASB Statement No. 28, paragraph 9, the Office of the State Treasurer has allocated the assets and obligations at June 30, 2013 arising from securities lending agreements to the various funds of the State. The total allocated to the Department was \$281.9 million at June 30, 2013 including \$157.6 million allocated to agency funds administered by the Department.

(4) Taxes Receivable

Taxes receivable (amounts expressed in thousands) at June 30, 2013 are as follows:

| | General Fund | Nonmajor Governmental Funds | Fiduciary Funds |
|---|--------------------|-----------------------------------|--------------------|
| Taxes receivable: | | | |
| Income | \$1,185,543 | \$145,387 | \$ - |
| Sales | 675,830 | 235,769 | 278,040 |
| Motor Fuel Tax | - | 155,226 | - |
| Public Utility | 14,918 | 11,697 | 3,023 |
| Other | 51,075 | 22,974 | 14,921 |
| Total taxes receivable | \$1,927,366 | \$571,053 | \$295,984 |
| Less: allowance for uncollectible taxes | \$ 761,164 | \$196,897 | \$ 79,484 |
| Taxes receivable, net | <u>\$1,166,202</u> | <u>\$374,156</u> | <u>\$216,500</u> |

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(5) Loans and Notes Receivable

The Senior Citizen Real Estate Tax Deferral program is a tax-relief loan program. It allows qualified seniors to defer all or part of their taxes and special assessments on their primary home. The loan, which comes from the State of Illinois, is re-paid when the property is sold, or upon the death of the participant.

Loans receivable (amounts expressed in thousands) at June 30, 2013 are as follows:

| | Nonmajor Governmental Funds |
|--|-----------------------------------|
| Senior Citizens Real Estate Deferred Tax | \$ 41,403 |

(6) Interfund Balances and Activity

(a) Balances Due from/to Other Funds

The following balances (amounts expressed in thousands) at June 30, 2013 represent amounts due from other Department and State funds.

| Fund | Due from | | Description/Purpose |
|-----------------------------|------------------------------|----------------------|--|
| | Other Department Funds | Other State Funds | |
| General | \$ 456,690 | \$ - | Due from other Department funds pursuant to statutory tax allocations and for administrative cost reimbursements. |
| Nonmajor governmental funds | 247,873 | 35 | Due from other Department funds pursuant to statutory tax allocations, for administrative cost reimbursements, and from other State funds pursuant to statutory tax allocations. |
| Fiduciary Funds | 56,934 | - | Due from other Department funds pursuant to statutory tax allocations. |
| | \$ 761,497 | \$ 35 | |

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The following (amounts expressed in thousands) at June 30, 2013 represent amounts due to other Department and other State funds.

| Fund | Due to | | | | Description/Purpose |
|-----------------------------|------------------------------|-------------------------|---|--------------------------------------|--|
| | Other Department Funds | Other State Funds | Other Department Fiduciary Funds | Other State Fiduciary Funds | |
| General | \$ 585,236 | \$ 573,901 | \$ 25,523 | \$ - | Due to other Department and other Department fiduciary funds pursuant to statutory tax allocations, and due to other State funds for administrative expenses. |
| Nonmajor governmental funds | 119,327 | 1,654 | 31,411 | 831 | Due to other Department and other State funds pursuant to statutory tax and fee allocations, for administrative cost reimbursements and administrative expenses, to other Department fiduciary funds pursuant to statutory tax allocations, and to other State fiduciary funds for payment of retirement benefits. |
| | <u>\$ 704,563</u> | <u>\$ 575,555</u> | <u>\$ 56,934</u> | <u>\$ 831</u> | |

(b) Transfers from/to Other Funds

Interfund transfers in (amounts expressed in thousands) for the year ended June 30, 2013, were as follows:

| Fund | Transfers in from | | Description/Purpose |
|-----------------------------|------------------------------|-------------------------|--|
| | Other Department Funds | Other State Funds | |
| General | \$ 399,647 | \$ 655,784 | Transfers from other Department funds and other State funds pursuant to statutory tax allocations. |
| Nonmajor governmental funds | 37,800 | 169 | Transfers from other Department funds and other State funds pursuant to statutory tax allocations. |
| | <u>\$ 437,447</u> | <u>\$ 655,953</u> | |

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Interfund transfers out (amounts expressed in thousands) for the year ended June 30, 2013, were as follows:

| Fund | Transfers out to | | Description/Purpose |
|-----------------------------|---------------------------------------|----------------------------------|--|
| | Other Department Funds | Other State Funds | |
| General | \$ 396,947 | \$ 333,725 | Transfers to other Department funds and other State funds pursuant to statutory tax allocations. |
| Nonmajor governmental funds | 58,552 | 6,600 | Transfers to other Department funds and other State funds pursuant to statutory tax allocations. |
| | <u>\$ 455,499</u> | <u>\$ 340,325</u> | |

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

The Illinois Housing Development Authority owes the Department's nonmajor governmental funds \$324.2 million at June 30, 2013 for advances on loan programs. The General Fund owes \$46 thousand and the Nonmajor Funds owe \$1.6 million at June 30, 2013 to State of Illinois Component Units for reimbursements for expenses incurred.

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(7) Capital Assets

Capital asset activity (amounts expressed in thousands) for the year ended June 30, 2013 was as follows:

| | Balance | | | Net | | Balance |
|---|---------------------|------------------|------------------|------------------|--|----------------------|
| | July 1, 2012 | Additions | Deletions | Transfers | | June 30, 2013 |
| Governmental activities: | | | | | | |
| Capital assets being depreciated/amortized: | | | | | | |
| Equipment | \$ 5,037 | \$ 19 | \$ (269) | \$ - | | \$ 4,787 |
| Internally generated computer software | 10,899 | 14,499 | - | - | | 25,398 |
| | <u>15,936</u> | <u>14,518</u> | <u>(269)</u> | <u>-</u> | | <u>30,185</u> |
| Less accumulated depreciation/amortization: | | | | | | |
| Equipment | 4,337 | 270 | (269) | - | | 4,338 |
| Internally generated computer software | 2,691 | 3,333 | - | - | | 6,024 |
| | <u>7,028</u> | <u>3,603</u> | <u>(269)</u> | <u>-</u> | | <u>10,362</u> |
| Governmental activity capital assets, net | <u>\$ 8,908</u> | <u>\$ 10,915</u> | <u>\$ -</u> | <u>\$ -</u> | | <u>\$ 19,823</u> |

Depreciation/amortization expense for governmental activities (amounts expressed in thousands) for the year ended June 30, 2013 was charged to functions as follows:

| | |
|--------------------|-----------------|
| General government | <u>\$ 3,603</u> |
|--------------------|-----------------|

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(8) Long-Term Obligations

Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2013 were as follows:

| | Balance July 1, 2012 | Additions | Deletions | Balance June 30, 2013 | Amounts Due Within One Year |
|--------------------------------------|-------------------------------------|------------------|------------------|--------------------------------------|--|
| Governmental activities: | | | | | |
| Compensated Absences | \$ 13,329 | \$ 9,253 | \$ 8,703 | \$ 13,879 | \$ 1,200 |
| Total governmental activities | \$ 13,329 | \$ 9,253 | \$ 8,703 | \$ 13,879 | \$ 1,200 |

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

(9) 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, 2013. 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 a statutorily determined percentage of their payrolls. For fiscal year 2013, the employer contribution rate was 37.99%.

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(10) 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 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 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 Central Management Services. A copy of the financial statements of the Department of Central Management Services may be obtained by writing to the Department of Central Management Services, 704 Stratton Office Building, Springfield, Illinois, 62706.

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(11) Fund Balance

(a) Fund Balances

At June 30, 2013, the Department's fund balance restrictions (amounts expressed in thousands) were for the following purposes:

| | General Fund | Nonmajor Special Revenue Funds | Total |
|-------------------------------------|------------------------------|---|----------------------------|
| Nonspendable purpose: | | | |
| Inventory | \$ 114 | \$ - | \$ 114 |
| Total Nonspendable | <u>\$ 114</u> | <u>\$ -</u> | <u>\$ 114</u> |
| Restricted purpose: | | | |
| General Government | \$ - | \$ 26,890 | \$ 26,890 |
| Total Restricted | <u>\$ -</u> | <u>\$ 26,890</u> | <u>\$ 26,890</u> |
| Committed purpose: | | | |
| General Government | \$ 139 | \$ 120,490 | \$ 120,629 |
| Health and Social Services | - | 433,539 | 433,539 |
| Employment and Economic Development | - | 3,647 | 3,647 |
| Environment and Business Regulation | 845 | 11,931 | 12,776 |
| Education | 148,974 | 88 | 149,062 |
| Capital Outlay | - | 42,058 | 42,058 |
| Total Committed | <u>\$ 149,958</u> | <u>\$ 611,753</u> | <u>\$ 761,711</u> |
| Total Unassigned | <u>\$ (1,238,970)</u> | <u>\$ (214,181)</u> | <u>\$ (1,453,151)</u> |
| Total fund balances | <u><u>\$ (1,088,898)</u></u> | <u><u>\$ 424,462</u></u> | <u><u>\$ (664,436)</u></u> |

**STATE OF ILLINOIS
DEPARTMENT OF REVENUE**

Notes to Financial Statements

June 30, 2013

(b) Fund Deficits

The General Fund (\$1.1) billion and the following nonmajor governmental funds had fund deficits at June 30, 2013 as noted: Illinois Gaming Law Enforcement (\$432) thousand, Public Utility (\$37) thousand, County and Mass Transit District (\$458) thousand, Illinois Tax Increment (\$1.1) million, and Personal Property Tax Replacement (\$212.1) million. The fund deficit in the General Fund will be eliminated through the collection and allocation of future State revenues to the Department. The fund deficit in the County and Mass Transit District fund will be eliminated by future recognition of earned but unavailable revenues. The fund deficit of the Illinois Gaming Law Enforcement, Public Utility, Illinois Tax Increment, and the Personal Property Tax Replacement funds will be eliminated through future revenues earned.

(12) 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, 2013.

(13) Commitments and Contingencies

(a) Operating leases

The Department leases certain office space under annual agreements which require the Department to make monthly lease payments. Rent expense under operating leases was \$1.9 million for the year ended June 30, 2013.

(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.

Supplementary Information

State of Illinois
Department of Revenue

Combining Schedule of Accounts
General Fund

June 30, 2013 (Expressed in Thousands)

| | General Revenue Account 0001 | Common School Special 0005 | Education Assistance 0007 | Illinois Sports Facility 0225 | Income Tax Refund 0278 | Common School 0412 | Predatory Lending Database Program 0478 | Municipal Economic Development 0650 | Capital Projects 0694 | Eliminations | Total |
|---|---------------------------------------|-------------------------------------|---------------------------------|--|------------------------------|--------------------------|---|--|-----------------------------|--------------|---------------------|
| ASSETS | | | | | | | | | | | |
| Unexpended appropriation | \$ 12,166 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 12,166 |
| Cash and cash equivalents | 207,791 | 98,285 | 8,771 | 3,613 | 453,817 | 3,306 | 845 | 4 | 21 | - | 776,453 |
| Securities lending collateral equity with State Treasurer | - | - | - | - | - | - | - | 27 | - | - | 27 |
| Taxes receivable, net | 918,193 | 113,825 | 44,697 | 4,779 | 83,007 | 1,479 | - | 1 | 221 | - | 1,166,202 |
| Intergovernmental receivables | - | - | - | - | 449 | - | - | - | - | - | 449 |
| Due from other Department funds | 397,089 | - | - | - | 59,601 | - | - | - | - | - | 456,690 |
| Inventories | 114 | - | - | - | - | - | - | - | - | - | 114 |
| Total assets | \$ 1,535,353 | \$ 212,110 | \$ 53,468 | \$ 8,392 | \$ 596,874 | \$ 4,785 | \$ 845 | \$ 32 | \$ 242 | \$ - | \$ 2,412,101 |
| LIABILITIES | | | | | | | | | | | |
| Accounts payable and accrued liabilities | \$ 237,219 | \$ 70,861 | \$ - | \$ - | \$ - | \$ 2,989 | \$ - | \$ 1 | \$ - | \$ - | \$ 311,070 |
| Income tax refunds payable | - | - | - | - | 1,327,510 | - | - | - | - | - | 1,327,510 |
| Intergovernmental payables | 933 | - | - | 8,392 | - | - | - | 3 | - | - | 9,328 |
| Obligations under securities lending of State Treasurer | - | - | - | - | - | - | - | 27 | - | - | 27 |
| Due to other Department fiduciary funds | 25,523 | - | - | - | - | - | - | - | - | - | 25,523 |
| Due to other Department funds | 188,289 | - | - | - | 396,947 | - | - | - | - | - | 585,236 |
| Due to other State funds | 573,901 | - | - | - | - | - | - | - | - | - | 573,901 |
| Due to State of Illinois Component Units | 46 | - | - | - | - | - | - | - | - | - | 46 |
| Unavailable revenue | 117,697 | 9,355 | 8,479 | - | 14,616 | - | - | 1 | 103 | - | 150,251 |
| Unearned revenue | 377,209 | - | 29,705 | - | 111,193 | - | - | - | - | - | 518,107 |
| Total liabilities | 1,520,817 | 80,216 | 38,184 | 8,392 | 1,850,266 | 2,989 | - | 32 | 103 | - | 3,500,999 |
| FUND BALANCES (DEFICITS) | | | | | | | | | | | |
| Nonspendable - Inventory | 114 | - | - | - | - | - | - | - | - | - | 114 |
| Committed | - | 131,894 | 15,284 | - | - | 1,796 | 845 | - | 139 | - | 149,958 |
| Unassigned | 14,422 | - | - | - | (1,253,392) | - | - | - | - | - | (1,238,970) |
| Total fund balances (deficits) | 14,536 | 131,894 | 15,284 | - | (1,253,392) | 1,796 | 845 | - | 139 | - | (1,088,898) |
| Total liabilities and fund balances (deficits) | \$ 1,535,353 | \$ 212,110 | \$ 53,468 | \$ 8,392 | \$ 596,874 | \$ 4,785 | \$ 845 | \$ 32 | \$ 242 | \$ - | \$ 2,412,101 |

Department of Revenue

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

For the Year Ended June 30, 2013 (Expressed in Thousands)

| | General Revenue Account 0001 | Common School Special 0005 | Education Assistance 0007 | Illinois Sports Facility 0225 | Income Tax Refund 0278 | Common School 0412 | Predatory Lending Database Program 0478 | Municipal Economic Development 0650 | Capital Projects 0694 | Eliminations | Total |
|--|---------------------------------------|-------------------------------------|---------------------------------|--|------------------------------|--------------------------|---|--|-----------------------------|--------------|-----------------------|
| REVENUES | | | | | | | | | | | |
| Income taxes | \$ 17,022,570 | \$ - | \$ 1,435,722 | \$ - | \$ 180,726 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 18,639,018 |
| Sales taxes | 5,329,833 | 1,849,714 | - | - | - | - | - | - | 54,000 | - | 7,233,547 |
| Public utility taxes | 933,900 | - | - | - | - | 93,297 | - | 55 | - | - | 1,027,252 |
| Other taxes | 508,867 | - | - | - | - | 89,729 | - | - | 98,095 | - | 696,691 |
| Licenses and fees | 6,086 | - | - | - | - | 227 | - | - | - | - | 6,313 |
| Other | 6,304 | - | - | - | - | - | - | - | - | - | 6,304 |
| Total revenues | 23,807,560 | 1,849,714 | 1,435,722 | - | 180,726 | 183,253 | - | 55 | 152,095 | - | 27,609,125 |
| EXPENDITURES | | | | | | | | | | | |
| General government | 97,930 | - | - | - | (57,669) | - | - | 215 | - | - | 40,476 |
| Employment and economic development | - | - | - | 5,000 | - | - | - | - | - | - | 5,000 |
| Capital outlay | 5,398 | - | - | - | - | - | - | - | - | - | 5,398 |
| Total expenditures | 103,328 | - | - | 5,000 | (57,669) | - | - | 215 | - | - | 50,874 |
| Excess (deficiency) of revenues over (under) expenditures | 23,704,232 | 1,849,714 | 1,435,722 | (5,000) | 238,395 | 183,253 | - | (160) | 152,095 | - | 27,558,251 |
| OTHER SOURCES (USES) OF FINANCIAL RESOURCES | | | | | | | | | | | |
| Appropriations from State resources | 111,025 | - | - | - | - | - | - | - | - | - | 111,025 |
| Lapsed appropriations | (2,569) | - | - | - | - | - | - | - | - | - | (2,569) |
| Receipts collected and transmitted to State Treasury | (25,281,718) | - | (1,439,228) | - | - | (186,397) | - | - | (169,107) | - | (27,076,450) |
| Amount of SAMS transfers-in | (1,558) | - | - | - | - | (2,420,092) | - | - | - | - | (2,421,650) |
| Amount of SAMS transfers-out | 1,997,876 | - | - | - | - | - | - | - | - | - | 1,997,876 |
| Transfers-in | 397,339 | - | - | 5,000 | 15,360 | 2,420,092 | - | 160 | (18,052) | (1,764,468) | 1,055,431 |
| Transfers-out | (332,635) | (1,764,468) | - | - | (398,037) | - | - | - | - | 1,764,468 | (730,672) |
| Net other sources (uses) of financial resources | (23,112,240) | (1,764,468) | (1,439,228) | 5,000 | (382,677) | (186,397) | - | 160 | (187,159) | - | (27,067,009) |
| Net change in fund balances | 591,992 | 85,246 | (3,506) | - | (144,282) | (3,144) | - | - | (35,064) | - | 491,242 |
| Fund balances (deficits), July 1, 2012 | (577,456) | 46,648 | 18,790 | - | (1,109,110) | 4,940 | 845 | - | 35,203 | - | (1,580,140) |
| FUND BALANCES (DEFICITS), JUNE 30, 2013 | \$ 14,536 | \$ 131,894 | \$ 15,284 | \$ - | \$ (1,253,392) | \$ 1,796 | \$ 845 | \$ - | \$ 139 | \$ - | \$ (1,088,898) |

State of Illinois
Department of Revenue

Combining Balance Sheet -
Nonmajor Governmental Funds

June 30, 2013 (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 |
| ASSETS | | | | | | | |
| Unexpended appropriations | \$ 5,423 | \$ - | \$ 189 | \$ 33 | \$ - | \$ - | \$ - |
| Cash and cash equivalents | 68 | - | 77 | 26 | 376 | 24,734 | 58,514 |
| Securities lending collateral equity with State Treasurer | - | - | - | - | - | - | - |
| Taxes receivable, net | 110,406 | 1 | 6,855 | 508 | - | - | 18,815 |
| Intergovernmental receivables | - | - | - | - | - | - | - |
| Other receivables, net | - | - | - | - | - | - | - |
| Due from other Department funds | - | - | - | - | - | - | - |
| Due from other State funds | - | - | - | - | - | - | - |
| Loans and notes receivable, long-term | - | - | - | - | - | - | - |
| Due from State of Illinois component units | - | - | - | - | - | - | - |
| Total assets | \$ 115,897 | \$ 1 | \$ 7,121 | \$ 567 | \$ 376 | \$ 24,734 | \$ 77,329 |
| LIABILITIES | | | | | | | |
| Accounts payable and accrued liabilities | \$ 5,200 | \$ 38 | \$ 159 | \$ 34 | \$ 30 | \$ 18 | \$ - |
| Intergovernmental payables | 228 | - | 2 | 954 | - | - | 15,459 |
| Obligations under securities lending of State Treasurer | - | - | - | - | - | - | - |
| Due to other Department fiduciary funds | - | - | - | - | - | - | - |
| Due to other State fiduciary funds | - | - | 28 | 11 | - | - | - |
| Due to other Department funds | - | - | - | - | - | - | 59,584 |
| Due to other State funds | 718 | - | - | - | - | - | - |
| Due to State of Illinois component units | - | - | - | - | - | 317 | - |
| Unavailable revenue | 236 | - | - | - | - | - | 2,286 |
| Unearned revenue | - | - | - | - | - | - | - |
| Total liabilities | 6,382 | 38 | 189 | 999 | 30 | 335 | 77,329 |
| FUND BALANCES (DEFICITS) | | | | | | | |
| Restricted | - | - | - | - | 346 | 24,399 | - |
| Committed | 109,515 | - | 6,932 | - | - | - | - |
| Unassigned | - | (37) | - | (432) | - | - | - |
| Total fund balances (deficits) | 109,515 | (37) | 6,932 | (432) | 346 | 24,399 | - |
| Total liabilities and fund balances (deficits) | \$ 115,897 | \$ 1 | \$ 7,121 | \$ 567 | \$ 376 | \$ 24,734 | \$ 77,329 |

(Continued)

State of Illinois
Department of Revenue

Combining Balance Sheet -
Nonmajor Governmental Funds

June 30, 2013 (Expressed in Thousands)

| | Special Revenue | | | | | | |
|---|---|----------------------------------|---------------------------|------------------------------------|----------------------------|-----------------------------------|--|
| | RTA Occupation and Use Tax Replacement 0187 | County & Mass Transit 0188 | Local Govt Tax 0189 | Emergency Public Health 0240 | Debt Collection 0279 | Illinois Tax Increment 0281 | Illinois Affordable Housing Trust 0286 |
| ASSETS | | | | | | | |
| Unexpended appropriations | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Cash and cash equivalents | - | 67,227 | 290,899 | 1 | 34 | 3,780 | 59,553 |
| Securities lending collateral equity with State Treasurer | - | - | - | - | - | 1,663 | 39,517 |
| Taxes receivable, net | - | 21,526 | 90,356 | - | - | 1,317 | - |
| Intergovernmental receivables | - | - | - | - | - | - | - |
| Other receivables, net | - | - | - | 789 | - | 1 | 19 |
| Due from other Department funds | 7,504 | - | - | - | - | - | - |
| Due from other State funds | - | - | - | - | - | - | - |
| Loans and notes receivable, long-term | - | - | - | - | - | - | - |
| Due from State of Illinois component units | - | - | - | - | - | - | 324,163 |
| Total assets | \$ 7,504 | \$ 88,753 | \$ 381,255 | \$ 790 | \$ 34 | \$ 6,761 | \$ 423,252 |
| LIABILITIES | | | | | | | |
| Accounts payable and accrued liabilities | \$ - | \$ - | \$ - | \$ - | \$ 2 | \$ 812 | \$ 170 |
| Intergovernmental payables | 7,504 | 56,420 | 375,998 | - | 13 | 5,323 | 1,745 |
| Obligations under securities lending of State Treasurer | - | - | - | - | - | 1,663 | 39,517 |
| Due to other Department fiduciary funds | - | 31,411 | - | - | - | - | - |
| Due to other State fiduciary funds | - | - | - | - | - | - | - |
| Due to other Department funds | - | - | - | - | - | - | - |
| Due to other State funds | - | - | - | - | - | - | 1 |
| Due to State of Illinois component units | - | - | - | - | - | - | 1,270 |
| Unavailable revenue | - | 1,380 | 5,257 | 11 | - | 106 | - |
| Unearned revenue | - | - | - | - | - | - | - |
| Total liabilities | 7,504 | 89,211 | 381,255 | 11 | 15 | 7,904 | 42,703 |
| FUND BALANCES (DEFICITS) | | | | | | | |
| Restricted | - | - | - | - | 19 | - | - |
| Committed | - | - | - | 779 | - | - | 380,549 |
| Unassigned | - | (458) | - | - | - | (1,143) | - |
| Total fund balances (deficits) | - | (458) | - | 779 | 19 | (1,143) | 380,549 |
| Total liabilities and fund balances (deficits) | \$ 7,504 | \$ 88,753 | \$ 381,255 | \$ 790 | \$ 34 | \$ 6,761 | \$ 423,252 |

(Continued)

State of Illinois
Department of Revenue

Combining Balance Sheet -
Nonmajor Governmental Funds

June 30, 2013 (Expressed in Thousands)

| | Special Revenue | | | | | | |
|---|---------------------------------|--------------------------------------|---|---|---|---|---|
| | Used Tire Management 0294 | Natural Areas Acquisition 0298 | Open Space Lands Acquisition & Development 0299 | Tax Compliance and Administration 0384 | Local Government Distributive 0515 | Drycleaner Environmental Response 0548 | Supplemental Low Income Energy Assistance 0550 |
| ASSETS | | | | | | | |
| Unexpended appropriations | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Cash and cash equivalents | 3 | 104 | 241 | 11,996 | 21 | - | 974 |
| Securities lending collateral equity with State Treasurer | - | - | - | - | - | - | - |
| Taxes receivable, net | - | - | - | 551 | - | 100 | 7,696 |
| Intergovernmental receivables | - | - | - | - | - | - | - |
| Other receivables, net | 2,998 | - | - | - | - | - | - |
| Due from other Department funds | - | - | - | - | 230,919 | - | - |
| Due from other State funds | - | - | - | 35 | - | - | - |
| Loans and notes receivable, long-term | - | - | - | - | - | - | - |
| Due from State of Illinois component units | - | - | - | - | - | - | - |
| Total assets | \$ 3,001 | \$ 104 | \$ 241 | \$ 12,582 | \$ 230,940 | \$ 100 | \$ 8,670 |
| LIABILITIES | | | | | | | |
| Accounts payable and accrued liabilities | \$ - | \$ 1 | \$ 1 | \$ 941 | \$ - | \$ - | \$ 14 |
| Intergovernmental payables | - | - | - | - | 230,940 | - | - |
| Obligations under securities lending of State Treasurer | - | - | - | - | - | - | - |
| Due to other Department fiduciary funds | - | - | - | - | - | - | - |
| Due to other State fiduciary funds | - | - | - | 591 | - | - | - |
| Due to other Department funds | 142 | - | - | - | - | - | - |
| Due to other State funds | - | - | - | - | - | - | - |
| Due to State of Illinois component units | - | - | - | - | - | - | - |
| Unavailable revenue | 43 | - | - | 75 | - | 2 | - |
| Unearned revenue | - | - | - | - | - | - | - |
| Total liabilities | 185 | 1 | 1 | 1,607 | 230,940 | 2 | 14 |
| FUND BALANCES (DEFICITS) | | | | | | | |
| Restricted | - | - | - | - | - | - | - |
| Committed | 2,816 | 103 | 240 | 10,975 | - | 98 | 8,656 |
| Unassigned | - | - | - | - | - | - | - |
| Total fund balances (deficits) | 2,816 | 103 | 240 | 10,975 | - | 98 | 8,656 |
| Total liabilities and fund balances (deficits) | \$ 3,001 | \$ 104 | \$ 241 | \$ 12,582 | \$ 230,940 | \$ 100 | \$ 8,670 |

(Continued)

State of Illinois
Department of Revenue

Combining Balance Sheet -
Nonmajor Governmental Funds

June 30, 2013 (Expressed in Thousands)

Special Revenue

| | Renewable Energy Resource 0564 | School Infrastructure 0568 | International Tourism 0621 | Personal Property Tax Replacement 0802 | Dram Shop 0821 | Local Government Video Gaming 0842 | Foreclosure Prevention 0891 |
|---|---|----------------------------------|----------------------------------|---|----------------------|---|-----------------------------------|
| ASSETS | | | | | | | |
| Unexpended appropriations | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Cash and cash equivalents | 55 | 1,908 | 199 | 283,635 | 1,448 | 1,154 | 2,207 |
| Securities lending collateral equity with State Treasurer | - | - | - | 83,101 | - | - | - |
| Taxes receivable, net | - | 989 | 710 | 67,115 | - | 1,162 | - |
| Intergovernmental receivables | - | - | - | - | - | 2 | 94 |
| Other receivables, net | 480 | - | - | 40 | - | - | - |
| Due from other Department funds | - | - | - | - | - | - | - |
| Due from other State funds | - | - | - | - | - | - | - |
| Loans and notes receivable, long-term | - | - | - | - | - | - | - |
| Due from State of Illinois component units | - | - | - | - | - | - | - |
| Total assets | \$ 535 | \$ 2,897 | \$ 909 | \$ 433,891 | \$ 1,448 | \$ 2,318 | \$ 2,301 |
| LIABILITIES | | | | | | | |
| Accounts payable and accrued liabilities | \$ - | \$ 2,809 | \$ 26 | \$ 81,117 | \$ 220 | \$ - | \$ - |
| Intergovernmental payables | - | - | - | 243,580 | 1 | 2,318 | - |
| Obligations under securities lending of State Treasurer | - | - | - | 83,101 | - | - | - |
| Due to other Department fiduciary funds | - | - | - | - | - | - | - |
| Due to other State fiduciary funds | - | - | - | - | 26 | - | 175 |
| Due to other Department funds | - | - | - | 59,601 | - | - | - |
| Due to other State funds | - | - | - | 935 | - | - | - |
| Due to State of Illinois component units | - | - | - | - | - | - | - |
| Unavailable revenue | - | - | 9 | 14,887 | - | - | - |
| Unearned revenue | - | - | - | 162,781 | - | - | - |
| Total liabilities | - | 2,809 | 35 | 646,002 | 247 | 2,318 | 175 |
| FUND BALANCES (DEFICITS) | | | | | | | |
| Restricted | - | - | - | - | - | - | 2,126 |
| Committed | 535 | 88 | 874 | - | 1,201 | - | - |
| Unassigned | - | - | - | (212,111) | - | - | - |
| Total fund balances (deficits) | 535 | 88 | 874 | (212,111) | 1,201 | - | 2,126 |
| Total liabilities and fund balances (deficits) | \$ 535 | \$ 2,897 | \$ 909 | \$ 433,891 | \$ 1,448 | \$ 2,318 | \$ 2,301 |

(Continued)

State of Illinois
Department of Revenue

Combining Balance Sheet -
Nonmajor Governmental Funds

June 30, 2013 (Expressed in Thousands)

| | Special Revenue | | | | |
|---|--|---------------------------|--------------------------|--------------------------|---------------------|
| | Senior Citizen Real Estate Deferred Tax 0930 | Build Illinois 0960 | Local Tourism 0969 | Evidence Fund 1369 | Total |
| | | | | | |
| | | | | | |
| ASSETS | | | | | |
| Unexpended appropriations | \$ - | \$ - | \$ - | \$ - | \$ 5,645 |
| Cash and cash equivalents | 2,152 | 8,748 | 646 | 6 | 820,786 |
| Securities lending collateral equity with State Treasurer | - | - | - | - | 124,281 |
| Taxes receivable, net | - | 43,837 | 2,212 | - | 374,156 |
| Intergovernmental receivables | - | - | - | - | 96 |
| Other receivables, net | 11,610 | - | - | - | 15,937 |
| Due from other Department funds | - | 9,450 | - | - | 247,873 |
| Due from other State funds | - | - | - | - | 35 |
| Loans and notes receivable, long-term | 41,403 | - | - | - | 41,403 |
| Due from State of Illinois component units | - | - | - | - | 324,163 |
| Total assets | \$ 55,165 | \$ 62,035 | \$ 2,858 | \$ 6 | \$ 1,954,375 |
| LIABILITIES | | | | | |
| Accounts payable and accrued liabilities | \$ - | \$ 17,770 | \$ 85 | \$ - | \$ 109,447 |
| Intergovernmental payables | - | - | - | - | 940,485 |
| Obligations under securities lending of State Treasurer | - | - | - | - | 124,281 |
| Due to other Department fiduciary funds | - | - | - | - | 31,411 |
| Due to other State fiduciary funds | - | - | - | - | 831 |
| Due to other Department funds | - | - | - | - | 119,327 |
| Due to other State funds | - | - | - | - | 1,654 |
| Due to State of Illinois component units | - | - | - | - | 1,587 |
| Unavailable revenue | 11,610 | 2,207 | - | - | 38,109 |
| Unearned revenue | - | - | - | - | 162,781 |
| Total liabilities | 11,610 | 19,977 | 85 | - | 1,529,913 |
| FUND BALANCES (DEFICITS) | | | | | |
| Restricted | - | - | - | - | 26,890 |
| Committed | 43,555 | 42,058 | 2,773 | 6 | 611,753 |
| Unassigned | - | - | - | - | (214,181) |
| Total fund balances (deficits) | 43,555 | 42,058 | 2,773 | 6 | 424,462 |
| Total liabilities and fund balances (deficits) | \$ 55,165 | \$ 62,035 | \$ 2,858 | \$ 6 | \$ 1,954,375 |

(Concluded)

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, 2013 (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 |
| REVENUES | | | | | | | |
| Federal operating grants | \$ 146 | \$ - | \$ - | \$ - | \$ 191 | \$ - | \$ - |
| Income taxes | - | - | - | - | - | - | - |
| Sales taxes | - | - | - | - | - | - | 96,123 |
| Motor fuel taxes | 1,184,303 | - | 69,957 | - | - | - | - |
| Public utility taxes, net | - | 7,070 | - | - | - | - | - |
| Other taxes, net | - | - | - | 2,574 | - | 18,773 | - |
| License and fees | 831 | 5,500 | - | 284 | - | - | - |
| Other charges for services | - | - | - | - | - | - | - |
| Interest and other investment income | - | - | - | - | - | - | - |
| Other | - | - | - | - | - | - | - |
| Total revenues | 1,185,280 | 12,570 | 69,957 | 2,858 | 191 | 18,773 | 96,123 |
| EXPENDITURES | | | | | | | |
| General government | 41,405 | - | 1,736 | - | 142 | 10,636 | - |
| Health and social services | - | - | - | - | - | - | - |
| Environment and business regulation | - | - | - | - | - | - | - |
| Intergovernmental | - | - | - | 1,540 | - | - | 58,323 |
| Capital outlay | 2,382 | - | - | - | - | - | - |
| Total expenditures | 43,787 | - | 1,736 | 1,540 | 142 | 10,636 | 58,323 |
| Excess (deficiency) of revenues over (under) expenditures | 1,141,493 | 12,570 | 68,221 | 1,318 | 49 | 8,137 | 37,800 |
| OTHER SOURCES (USES) OF FINANCIAL RESOURCES | | | | | | | |
| Appropriations from State resources | 68,330 | - | 1,774 | 2,261 | - | - | - |
| Lapsed appropriations | (6,553) | - | (38) | (749) | - | - | - |
| Receipts collected and transmitted to State Treasury | (1,192,078) | (12,498) | (68,644) | (2,860) | - | - | - |
| Amount of SAMS transfers-in | - | - | - | - | - | - | - |
| Amount of SAMS transfers-out | - | - | - | - | - | - | - |
| Transfers-in | - | - | - | - | - | - | - |
| Transfers-out | - | - | - | - | - | - | (37,800) |
| Net other sources (uses) of financial resources | (1,130,301) | (12,498) | (66,908) | (1,348) | - | - | (37,800) |
| Net change in fund balances | 11,192 | 72 | 1,313 | (30) | 49 | 8,137 | - |
| Fund balances (deficits), July 1, 2012 | 98,323 | (109) | 5,619 | (402) | 297 | 16,262 | - |
| FUND BALANCES (DEFICITS), JUNE 30, 2013 | \$ 109,515 | \$ (37) | \$ 6,932 | \$ (432) | \$ 346 | \$ 24,399 | \$ - |

(Continued)

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, 2013 (Expressed in Thousands)

| | Special Revenue | | | | | | |
|--|--|----------------------------------|---------------------------|------------------------------------|----------------------------|-----------------------------------|--|
| | RTA Occupation and Use Tax Replacement 0187 | County & Mass Transit 0188 | Local Govt Tax 0189 | Emergency Public Health 0240 | Debt Collection 0279 | Illinois Tax Increment 0281 | Illinois Affordable Housing Trust 0286 |
| | | | | | | | |
| REVENUES | | | | | | | |
| Federal operating grants | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Income taxes | - | - | - | - | - | - | - |
| Sales taxes | 28,982 | 345,576 | 1,674,991 | - | - | 21,372 | - |
| Motor fuel taxes | - | - | - | - | - | - | - |
| Public utility taxes, net | - | - | - | - | - | - | - |
| Other taxes, net | - | - | - | - | - | - | 27,200 |
| License and fees | - | - | - | 3,435 | - | - | 81 |
| Other charges for services | - | - | - | - | - | - | - |
| Interest and other investment income | - | - | - | - | - | 10 | 2,302 |
| Other | - | - | - | - | - | - | 11,371 |
| Total revenues | 28,982 | 345,576 | 1,674,991 | 3,435 | - | 21,382 | 40,954 |
| EXPENDITURES | | | | | | | |
| General government | - | - | - | - | 20 | 1 | 21,578 |
| Health and social services | - | - | - | - | - | - | 12,673 |
| Environment and business regulation | - | - | - | - | - | - | - |
| Intergovernmental | 28,982 | 349,197 | 1,665,178 | - | - | 21,087 | - |
| Capital outlay | - | - | - | - | - | - | - |
| Total expenditures | 28,982 | 349,197 | 1,665,178 | - | 20 | 21,088 | 34,251 |
| Excess (deficiency) of revenues over (under) expenditures | - | (3,621) | 9,813 | 3,435 | (20) | 294 | 6,703 |
| OTHER SOURCES (USES) OF FINANCIAL RESOURCES | | | | | | | |
| Appropriations from State resources | - | - | - | - | - | - | - |
| Lapsed appropriations | - | - | - | - | - | - | - |
| Receipts collected and transmitted to State Treasury | - | - | - | (3,339) | - | - | - |
| Amount of SAMS transfers-in | - | - | - | - | - | - | - |
| Amount of SAMS transfers-out | - | - | - | - | - | - | - |
| Transfers-in | - | - | - | - | - | - | - |
| Transfers-out | - | - | (6,600) | - | - | - | - |
| Net other sources (uses) of financial resources | - | - | (6,600) | (3,339) | - | - | - |
| Net change in fund balances | - | (3,621) | 3,213 | 96 | (20) | 294 | 6,703 |
| Fund balances (deficits), July 1, 2012 | - | 3,163 | (3,213) | 683 | 39 | (1,437) | 373,846 |
| FUND BALANCES (DEFICITS), JUNE 30, 2013 | \$ - | \$ (458) | \$ - | \$ 779 | \$ 19 | \$ (1,143) | \$ 380,549 |

(Continued)

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, 2013 (Expressed in Thousands)

| | Special Revenue | | | | | | |
|--|---------------------------------|---|---|---|---|---|--|
| | Used Tire Management 0294 | Natural Areas Acquisition 0298 | Open Space Lands Acquisition & Development 0299 | Tax Compliance and Administration 0384 | Local Government Distributive 0515 | Drycleaner Environmental Response 0548 | Supplemental Low Income Energy Assistance 0550 |
| REVENUES | | | | | | | |
| Federal operating grants | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Income taxes | - | - | - | - | 1,208,694 | - | - |
| Sales taxes | - | - | - | 2,217 | 163,005 | - | - |
| Motor fuel taxes | - | - | - | - | - | - | - |
| Public utility taxes, net | - | - | - | 1,437 | - | - | 92,550 |
| Other taxes, net | - | 8,160 | 19,041 | 13 | - | 447 | - |
| License and fees | 13,092 | - | - | 426 | - | 1,648 | - |
| Other charges for services | - | - | - | 182 | - | - | - |
| Interest and other investment income | - | - | - | - | - | - | - |
| Other | - | - | - | - | - | - | - |
| Total revenues | 13,092 | 8,160 | 19,041 | 4,275 | 1,371,699 | 2,095 | 92,550 |
| EXPENDITURES | | | | | | | |
| General government | - | - | - | 8,777 | - | - | - |
| Health and social services | - | - | - | - | - | - | - |
| Environment and business regulation | - | - | - | - | - | - | - |
| Intergovernmental | - | - | - | - | 1,366,699 | - | - |
| Capital outlay | - | - | - | 791 | - | - | - |
| Total expenditures | - | - | - | 9,568 | 1,366,699 | - | - |
| Excess (deficiency) of revenues over (under) expenditures | 13,092 | 8,160 | 19,041 | (5,293) | 5,000 | 2,095 | 92,550 |
| OTHER SOURCES (USES) OF FINANCIAL RESOURCES | | | | | | | |
| Appropriations from State resources | - | - | - | - | - | - | - |
| Lapsed appropriations | - | - | - | - | - | - | - |
| Receipts collected and transmitted to State Treasury | (12,741) | (8,100) | (18,900) | - | - | (2,107) | (91,371) |
| Amount of SAMS transfers-in | - | - | - | - | - | - | - |
| Amount of SAMS transfers-out | 659 | - | - | - | - | - | - |
| Transfers-in | - | - | - | 169 | - | - | - |
| Transfers-out | (392) | - | - | - | (5,000) | - | - |
| Net other sources (uses) of financial resources | (12,474) | (8,100) | (18,900) | 169 | (5,000) | (2,107) | (91,371) |
| Net change in fund balances | 618 | 60 | 141 | (5,124) | - | (12) | 1,179 |
| Fund balances (deficits), July 1, 2012 | 2,198 | 43 | 99 | 16,099 | - | 110 | 7,477 |
| FUND BALANCES (DEFICITS), JUNE 30, 2013 | \$ 2,816 | \$ 103 | \$ 240 | \$ 10,975 | \$ - | \$ 98 | \$ 8,656 |

(Continued)

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, 2013 (Expressed in Thousands)

| | Special Revenue | | | | | | |
|--|---|----------------------------------|----------------------------------|---|-------------------|---|-----------------------------------|
| | Renewable Energy Resource 0564 | School Infrastructure 0568 | International Tourism 0621 | Personal Property Tax Replacement 0802 | Dram Shop 0821 | Local Government Video Gaming 0842 | Foreclosure Prevention 0891 |
| REVENUES | | | | | | | |
| Federal operating grants | \$ - | \$ - | \$ - | \$ - | \$ 559 | \$ - | \$ - |
| Income taxes | - | - | - | 1,254,959 | - | - | - |
| Sales taxes | - | - | - | - | - | - | - |
| Motor fuel taxes | - | - | - | - | - | - | - |
| Public utility taxes, net | - | 81,298 | - | 159,805 | - | - | - |
| Other taxes, net | - | 45,727 | 4,579 | - | - | 6,053 | - |
| License and fees | 5,399 | - | - | - | 6,304 | - | - |
| Other charges for services | - | - | - | - | - | - | 3,390 |
| Interest and other investment income | - | - | - | 289 | - | - | - |
| Other | - | - | - | - | 89 | - | - |
| Total revenues | 5,399 | 127,025 | 4,579 | 1,415,053 | 6,952 | 6,053 | 3,390 |
| EXPENDITURES | | | | | | | |
| General government | - | - | - | 75,840 | 137 | - | 3,226 |
| Health and social services | - | - | - | - | - | - | - |
| Environment and business regulation | - | - | - | - | 7,789 | - | - |
| Intergovernmental | - | - | - | 1,247,997 | - | 6,053 | - |
| Capital outlay | - | - | - | 5,278 | 650 | - | - |
| Total expenditures | - | - | - | 1,329,115 | 8,576 | 6,053 | 3,226 |
| Excess (deficiency) of revenues over (under) expenditures | 5,399 | 127,025 | 4,579 | 85,938 | (1,624) | - | 164 |
| OTHER SOURCES (USES) OF FINANCIAL RESOURCES | | | | | | | |
| Appropriations from State resources | - | - | - | - | - | - | - |
| Lapsed appropriations | - | - | - | - | - | - | - |
| Receipts collected and transmitted to State Treasury | (5,331) | (127,640) | (4,476) | - | - | - | - |
| Amount of SAMS transfers-in | - | - | - | - | - | - | - |
| Amount of SAMS transfers-out | - | - | - | - | - | - | - |
| Transfers-in | - | - | - | - | - | - | - |
| Transfers-out | - | - | - | (15,360) | - | - | - |
| Net other sources (uses) of financial resources | (5,331) | (127,640) | (4,476) | (15,360) | - | - | - |
| Net change in fund balances | 68 | (615) | 103 | 70,578 | (1,624) | - | 164 |
| Fund balances (deficits), July 1, 2012 | 467 | 703 | 771 | (282,689) | 2,825 | - | 1,962 |
| FUND BALANCES (DEFICITS), JUNE 30, 2013 | \$ 535 | \$ 88 | \$ 874 | \$ (212,111) | \$ 1,201 | \$ - | \$ 2,126 |

(Continued)

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, 2013 (Expressed in Thousands)

| | Special Revenue | | | | Total |
|--|--|---------------------------|--------------------------|--------------------------|--------------------|
| | Senior Citizen Real Estate Deferred Tax 0930 | Build Illinois 0960 | Local Tourism 0969 | Evidence Fund 1369 | |
| REVENUES | | | | | |
| Federal operating grants | \$ - | \$ - | \$ - | \$ - | \$ 896 |
| Income taxes | - | - | - | - | 2,463,653 |
| Sales taxes | - | 436,292 | - | - | 2,768,558 |
| Motor fuel taxes | - | - | - | - | 1,254,260 |
| Public utility taxes, net | - | - | - | - | 342,160 |
| Other taxes, net | - | 117,496 | 14,777 | - | 264,840 |
| License and fees | - | - | - | - | 37,000 |
| Other charges for services | - | - | - | - | 3,572 |
| Interest and other investment income | 1,307 | - | - | - | 3,908 |
| Other | - | - | - | 6 | 11,466 |
| Total revenues | 1,307 | 553,788 | 14,777 | 6 | 7,150,313 |
| EXPENDITURES | | | | | |
| General government | 51 | - | - | 4 | 163,553 |
| Health and social services | - | - | - | - | 12,673 |
| Environment and business regulation | - | - | - | - | 7,789 |
| Intergovernmental | - | - | - | - | 4,745,056 |
| Capital outlay | - | - | - | - | 9,101 |
| Total expenditures | 51 | - | - | 4 | 4,938,172 |
| Excess (deficiency) of revenues over (under) expenditures | 1,256 | 553,788 | 14,777 | 2 | 2,212,141 |
| OTHER SOURCES (USES) OF FINANCIAL RESOURCES | | | | | |
| Appropriations from State resources | - | - | - | - | 72,365 |
| Lapsed appropriations | - | - | - | - | (7,340) |
| Receipts collected and transmitted to State Treasury | - | (549,500) | (14,500) | - | (2,114,085) |
| Amount of SAMS transfers-in | - | (37,800) | - | - | (37,800) |
| Amount of SAMS transfers-out | - | - | - | - | 659 |
| Transfers-in | - | 37,800 | - | - | 37,969 |
| Transfers-out | - | - | - | - | (65,152) |
| Net other sources (uses) of financial resources | - | (549,500) | (14,500) | - | (2,113,384) |
| Net change in fund balances | 1,256 | 4,288 | 277 | 2 | 98,757 |
| Fund balances (deficits), July 1, 2012 | 42,299 | 37,770 | 2,496 | 4 | 325,705 |
| FUND BALANCES (DEFICITS), JUNE 30, 2013 | \$ 43,555 | \$ 42,058 | \$ 2,773 | \$ 6 | \$ 424,462 |

(Concluded)

State of Illinois
Department of Revenue

Combining Statement of Fiduciary Net Position -
Agency Funds

June 30, 2013 (Expressed in Thousands)

| | Agency | | | | | | | | | |
|---|--|---|---|-------------------------------|------------------------------------|---------------------------------|---|---|-------------------------------------|--|
| | County Water Commission Tax 0084 | Non-Home Rule Municipal ROT 0088 | Home Rule Municipal Soft Drink ROT 0097 | Municipal Wireless 0125 | Home Rule Municipal ROT 0138 | Home Rule County ROT 0139 | Business District Retailers' Occupation Tax 0160 | County Option Motor Fuel Tax 0190 | County Public Safety ROT 0219 | |
| | | | | | | | | | | |
| ASSETS | | | | | | | | | | |
| Cash equity in State Treasury | \$ 6,203 | \$ 22,068 | \$ 1,776 | \$ 1 | \$ 97,690 | \$ 29,227 | \$ 2,002 | \$ 6,147 | \$ 15,968 | |
| Cash and cash equivalents | - | - | - | - | - | - | - | - | - | |
| Securities lending collateral equity with State Treasurer | 3,180 | 11,543 | - | - | 39,122 | 27,705 | - | 2,985 | - | |
| Taxes receivable, net | 2,088 | 6,709 | 870 | 515 | 74,623 | 2,880 | 1,240 | 2,744 | 5,341 | |
| Other receivables, net | 2 | 6 | - | - | 19 | 13 | - | 1 | - | |
| Due from other Department funds | - | - | - | - | - | - | - | - | - | |
| Total assets | \$ 11,473 | \$ 40,326 | \$ 2,646 | \$ 516 | \$ 211,454 | \$ 59,825 | \$ 3,242 | \$ 11,877 | \$ 21,309 | |
| LIABILITIES | | | | | | | | | | |
| Accounts payable and accrued liabilities | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 16 | \$ - | |
| Intergovernmental payables | 8,293 | 28,783 | 2,646 | 516 | 172,332 | 32,120 | 3,242 | 8,876 | 21,309 | |
| Obligations under securities lending of State Treasurer | 3,180 | 11,543 | - | - | 39,122 | 27,705 | - | 2,985 | - | |
| Other liabilities | - | - | - | - | - | - | - | - | - | |
| Total liabilities | \$ 11,473 | \$ 40,326 | \$ 2,646 | \$ 516 | \$ 211,454 | \$ 59,825 | \$ 3,242 | \$ 11,877 | \$ 21,309 | |

(Continued)

State of Illinois
Department of Revenue

Combining Statement of Fiduciary Net Position -
Agency Funds

June 30, 2013 (Expressed in Thousands)

| | Agency | | | | | | | | |
|---|------------------------------|---|-------------------------|--------------------------------------|--|-----------------------|------------------------------------|----------------------|------------------------|
| | Sports Facility Tax Trust | Metropolitan Pier & Expo. Auth. Trust | Illinois Tourism Tax | School Facility Occupation Tax | Flood Prevention Occupation Tax | Tax Suspense Trust | Metro East Park & Recreation | Municipal Telecom | RTA Sales Tax Trust |
| | 0229 | 0337 | 0452 | 0498 | 0558 | 0583 | 0717 | 0719 | 0812 |
| ASSETS | | | | | | | | | |
| Cash equity in State Treasury | \$ - | \$ 55,222 | \$ 5,077 | \$ 9,985 | \$ 2,954 | \$ 45 | \$ 1,200 | \$ 52,444 | \$ 100,828 |
| Cash and cash equivalents | - | - | - | - | - | - | - | - | - |
| Securities lending collateral equity with State Treasurer | - | 31,353 | - | - | - | - | - | - | 36,954 |
| Taxes receivable, net | 4,545 | 13,905 | 2,928 | 2,841 | 679 | - | 265 | 1,647 | 90,275 |
| Other receivables, net | - | 15 | - | - | - | - | - | - | 18 |
| Due from other Department funds | - | - | 1,529 | - | - | - | - | 23,994 | 31,411 |
| Total assets | \$ 4,545 | \$ 100,495 | \$ 9,534 | \$ 12,826 | \$ 3,633 | \$ 45 | \$ 1,465 | \$ 78,085 | \$ 259,486 |
| LIABILITIES | | | | | | | | | |
| Accounts payable and accrued liabilities | \$ 234 | \$ 273 | \$ 118 | \$ - | \$ - | \$ - | \$ - | \$ 10,170 | \$ - |
| Intergovernmental payables | 4,311 | 68,869 | 9,416 | 12,826 | 3,633 | - | 1,465 | 67,915 | 222,532 |
| Obligations under securities lending of State Treasurer | - | 31,353 | - | - | - | - | - | - | 36,954 |
| Other liabilities | - | - | - | - | - | 45 | - | - | - |
| Total liabilities | \$ 4,545 | \$ 100,495 | \$ 9,534 | \$ 12,826 | \$ 3,633 | \$ 45 | \$ 1,465 | \$ 78,085 | \$ 259,486 |

(Continued)

State of Illinois
 Department of Revenue

Combining Statement of Fiduciary Net Position -
 Agency Funds

June 30, 2013 (Expressed in Thousands)

| | Agency | | | | | Total |
|---|--|---|--|-------------------------------------|-----------------|-------------------|
| | Metro East Mass Transit District Tax | Tennessee Valley Authority Local Trust | Municipal Automobile Renting Tax | County Automobile Renting Tax | Surety Bond | |
| | 0841 | 0861 | 0868 | 0869 | 1151 | |
| ASSETS | | | | | | |
| Cash equity in State Treasury | \$ 7,160 | \$ 1 | \$ 1,503 | \$ 71 | \$ - | \$ 417,572 |
| Cash and cash equivalents | - | - | - | - | 1,119 | 1,119 |
| Securities lending collateral equity with State Treasurer | 3,930 | - | 796 | 37 | - | 157,605 |
| Taxes receivable, net | 1,770 | - | 609 | 26 | - | 216,500 |
| Other receivables, net | 2 | - | - | - | - | 76 |
| Due from other Department funds | - | - | - | - | - | 56,934 |
| Total assets | \$ 12,862 | \$ 1 | \$ 2,908 | \$ 134 | \$ 1,119 | \$ 849,806 |
| LIABILITIES | | | | | | |
| Accounts payable and accrued liabilities | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 10,811 |
| Intergovernmental payables | 8,932 | 1 | 2,112 | 97 | - | 680,226 |
| Obligations under securities lending of State Treasurer | 3,930 | - | 796 | 37 | - | 157,605 |
| Other liabilities | - | - | - | - | 1,119 | 1,164 |
| Total liabilities | \$ 12,862 | \$ 1 | \$ 2,908 | \$ 134 | \$ 1,119 | \$ 849,806 |

(Concluded)

State of Illinois
Department of Revenue

**Combining Statement of Changes in Assets and Liabilities -
Agency Funds**

For the Year Ended June 30, 2013 (Expressed in Thousands)

| | Balance at July 1, 2012 | Additions | Deletions | Balance at June 30, 2013 |
|--|----------------------------|-------------------|-------------------|-----------------------------|
| County Water Commission Tax (0084) | | | | |
| ASSETS | | | | |
| Cash equity in State Treasury | \$ 6,934 | \$ 32,520 | \$ 33,251 | \$ 6,203 |
| Securities lending collateral equity with State Treasurer | 2,532 | 31,650 | 31,002 | 3,180 |
| Taxes receivable, net | 1,342 | 33,241 | 32,495 | 2,088 |
| Other receivables, net | 2 | 25 | 25 | 2 |
| Total assets | \$ 10,810 | \$ 97,436 | \$ 96,773 | \$ 11,473 |
| LIABILITIES | | | | |
| Intergovernmental payables | \$ 8,278 | \$ 33,266 | \$ 33,251 | \$ 8,293 |
| Obligations under securities lending of State Treasurer | 2,532 | 31,650 | 31,002 | 3,180 |
| Total liabilities | \$ 10,810 | \$ 64,916 | \$ 64,253 | \$ 11,473 |
| Non-Home Rule Municipal ROT (0088) | | | | |
| ASSETS | | | | |
| Cash equity in State Treasury | \$ 20,287 | \$ 112,036 | \$ 110,255 | \$ 22,068 |
| Securities lending collateral equity with State Treasurer | 7,271 | 106,697 | 102,425 | 11,543 |
| Taxes receivable, net | 6,096 | 112,584 | 111,971 | 6,709 |
| Other receivables, net | 5 | 66 | 65 | 6 |
| Total assets | \$ 33,659 | \$ 331,383 | \$ 324,716 | \$ 40,326 |
| LIABILITIES | | | | |
| Intergovernmental payables | \$ 26,388 | \$ 112,650 | \$ 110,255 | \$ 28,783 |
| Obligations under securities lending of State Treasurer | 7,271 | 106,697 | 102,425 | 11,543 |
| Total liabilities | \$ 33,659 | \$ 219,347 | \$ 212,680 | \$ 40,326 |
| Home Rule Municipal Soft Drink ROT (0097) | | | | |
| ASSETS | | | | |
| Cash equity in State Treasury | \$ 1,823 | \$ 9,748 | \$ 9,795 | \$ 1,776 |
| Taxes receivable, net | 981 | 9,637 | 9,748 | 870 |
| Total assets | \$ 2,804 | \$ 19,385 | \$ 19,543 | \$ 2,646 |
| LIABILITIES | | | | |
| Intergovernmental payables | \$ 2,804 | \$ 9,637 | \$ 9,795 | \$ 2,646 |
| Total liabilities | \$ 2,804 | \$ 9,637 | \$ 9,795 | \$ 2,646 |

(Continued)

State of Illinois
Department of Revenue

Combining Statement of Changes in Assets and Liabilities -
Agency Funds

For the Year Ended June 30, 2013 (Expressed in Thousands)

| | Balance at July 1, 2012 | Additions | Deletions | Balance at June 30, 2013 |
|--|----------------------------|---------------------|---------------------|-----------------------------|
| Municipal Wireless (0125) | | | | |
| ASSETS | | | | |
| Cash equity in State Treasury | \$ - | \$ 7,829 | \$ 7,828 | \$ 1 |
| Taxes receivable, net | - | 8,344 | 7,829 | 515 |
| Total assets | \$ - | \$ 16,173 | \$ 15,657 | \$ 516 |
| LIABILITIES | | | | |
| Intergovernmental payables | \$ - | \$ 8,344 | \$ 7,828 | \$ 516 |
| Total liabilities | \$ - | \$ 8,344 | \$ 7,828 | \$ 516 |
| Home Rule Municipal ROT (0138) | | | | |
| ASSETS | | | | |
| Cash equity in State Treasury | \$ 95,813 | \$ 864,259 | \$ 862,382 | \$ 97,690 |
| Securities lending collateral equity with State Treasurer | 25,208 | 403,288 | 389,374 | 39,122 |
| Taxes receivable, net | 67,186 | 871,446 | 864,009 | 74,623 |
| Other receivables, net | 18 | 251 | 250 | 19 |
| Total assets | \$ 188,225 | \$ 2,139,244 | \$ 2,116,015 | \$ 211,454 |
| LIABILITIES | | | | |
| Accounts payable and accrued liabilities | \$ 1,222 | \$ - | \$ 1,222 | \$ - |
| Intergovernmental payables | 161,795 | 871,697 | 861,160 | 172,332 |
| Obligations under securities lending of State Treasurer | 25,208 | 403,288 | 389,374 | 39,122 |
| Total liabilities | \$ 188,225 | \$ 1,274,985 | \$ 1,251,756 | \$ 211,454 |
| Home Rule County ROT (0139) | | | | |
| ASSETS | | | | |
| Cash equity in State Treasury | \$ 23,371 | \$ 330,372 | \$ 324,516 | \$ 29,227 |
| Securities lending collateral equity with State Treasurer | 46,176 | 574,311 | 592,782 | 27,705 |
| Taxes receivable, net | 30,680 | 302,172 | 329,972 | 2,880 |
| Other receivables, net | 32 | 381 | 400 | 13 |
| Total assets | \$ 100,259 | \$ 1,207,236 | \$ 1,247,670 | \$ 59,825 |
| LIABILITIES | | | | |
| Intergovernmental payables | \$ 54,083 | \$ 302,553 | \$ 324,516 | \$ 32,120 |
| Obligations under securities lending of State Treasurer | 46,176 | 574,311 | 592,782 | 27,705 |
| Total liabilities | \$ 100,259 | \$ 876,864 | \$ 917,298 | \$ 59,825 |
| Business District ROT (0160) | | | | |
| ASSETS | | | | |
| Cash equity in State Treasury | \$ 1,760 | \$ 12,393 | \$ 12,151 | \$ 2,002 |
| Taxes receivable, net | 775 | 12,858 | 12,393 | 1,240 |
| Total assets | \$ 2,535 | \$ 25,251 | \$ 24,544 | \$ 3,242 |
| LIABILITIES | | | | |
| Intergovernmental payables | \$ 2,535 | \$ 12,858 | \$ 12,151 | \$ 3,242 |
| Total liabilities | \$ 2,535 | \$ 12,858 | \$ 12,151 | \$ 3,242 |

(Continued)

State of Illinois
Department of Revenue

**Combining Statement of Changes in Assets and Liabilities -
Agency Funds**

For the Year Ended June 30, 2013 (Expressed in Thousands)

| | Balance at July 1, 2012 | Additions | Deletions | Balance at June 30, 2013 |
|--|----------------------------|-------------------|-------------------|-----------------------------|
| County Option Motor Fuel Tax (0190) | | | | |
| ASSETS | | | | |
| Cash equity in State Treasury | \$ 6,440 | \$ 32,218 | \$ 32,511 | \$ 6,147 |
| Securities lending collateral equity with State Treasurer | 2,189 | 26,295 | 25,499 | 2,985 |
| Taxes receivable, net | 2,762 | 32,183 | 32,201 | 2,744 |
| Other receivables, net | 2 | 16 | 17 | 1 |
| Total assets | \$ 11,393 | \$ 90,712 | \$ 90,228 | \$ 11,877 |
| LIABILITIES | | | | |
| Accounts payable and accrued liabilities | \$ 24 | \$ 16 | \$ 24 | \$ 16 |
| Intergovernmental payables | 9,180 | 32,183 | 32,487 | 8,876 |
| Obligations under securities lending of State Treasurer | 2,189 | 26,295 | 25,499 | 2,985 |
| Total liabilities | \$ 11,393 | \$ 58,494 | \$ 58,010 | \$ 11,877 |
| County Public Safety ROT (0219) | | | | |
| ASSETS | | | | |
| Cash equity in State Treasury | \$ 14,705 | \$ 87,470 | \$ 86,207 | \$ 15,968 |
| Taxes receivable, net | 3,722 | 89,089 | 87,470 | 5,341 |
| Total assets | \$ 18,427 | \$ 176,559 | \$ 173,677 | \$ 21,309 |
| LIABILITIES | | | | |
| Intergovernmental payables | \$ 18,427 | \$ 89,089 | \$ 86,207 | \$ 21,309 |
| Total liabilities | \$ 18,427 | \$ 89,089 | \$ 86,207 | \$ 21,309 |
| Sports Facility Tax Trust (0229) | | | | |
| ASSETS | | | | |
| Cash equity in State Treasury | \$ - | \$ 39,420 | \$ 39,420 | \$ - |
| Taxes receivable, net | 2,156 | 41,809 | 39,420 | 4,545 |
| Total assets | \$ 2,156 | \$ 81,229 | \$ 78,840 | \$ 4,545 |
| LIABILITIES | | | | |
| Accounts payable and accrued liabilities | \$ 103 | \$ 1,129 | \$ 998 | \$ 234 |
| Intergovernmental payables | 2,053 | 8,807 | 6,549 | 4,311 |
| Total liabilities | \$ 2,156 | \$ 9,936 | \$ 7,547 | \$ 4,545 |

(Continued)

State of Illinois
Department of Revenue

**Combining Statement of Changes in Assets and Liabilities -
Agency Funds**

For the Year Ended June 30, 2013 (Expressed in Thousands)

| | Balance at July 1, 2012 | Additions | Deletions | Balance at June 30, 2013 |
|--|----------------------------|-------------------|-------------------|-----------------------------|
| Metro Pier & Exposition Authority Trust (0337) | | | | |
| ASSETS | | | | |
| Cash equity in State Treasury | \$ 41,362 | \$ 127,218 | \$ 113,358 | \$ 55,222 |
| Securities lending collateral equity with State Treasurer | 13,846 | 177,876 | 160,369 | 31,353 |
| Taxes receivable, net | 12,643 | 128,379 | 127,117 | 13,905 |
| Other receivables, net | 10 | 106 | 101 | 15 |
| Total assets | \$ 67,861 | \$ 433,579 | \$ 400,945 | \$ 100,495 |
| LIABILITIES | | | | |
| Accounts payable and accrued liabilities | \$ 120 | \$ 153 | \$ - | \$ 273 |
| Intergovernmental payables | 53,895 | 128,332 | 113,358 | 68,869 |
| Obligations under securities lending of State Treasurer | 13,846 | 177,876 | 160,369 | 31,353 |
| Total liabilities | \$ 67,861 | \$ 306,361 | \$ 273,727 | \$ 100,495 |
| Illinois Tourism Tax (0452) | | | | |
| ASSETS | | | | |
| Cash equity in State Treasury | \$ 3,701 | \$ 20,491 | \$ 19,115 | \$ 5,077 |
| Taxes receivable, net | 2,104 | 21,315 | 20,491 | 2,928 |
| Due from other Department funds | 1,529 | - | - | 1,529 |
| Total assets | \$ 7,334 | \$ 41,806 | \$ 39,606 | \$ 9,534 |
| LIABILITIES | | | | |
| Accounts payable and accrued liabilities | \$ 52 | \$ 200 | \$ 134 | \$ 118 |
| Intergovernmental payables | 7,282 | 21,115 | 18,981 | 9,416 |
| Total liabilities | \$ 7,334 | \$ 21,315 | \$ 19,115 | \$ 9,534 |
| School Facility Occupation Tax (0498) | | | | |
| ASSETS | | | | |
| Cash equity in State Treasury | \$ 8,079 | \$ 49,453 | \$ 47,547 | \$ 9,985 |
| Taxes receivable, net | 1,465 | 50,829 | 49,453 | 2,841 |
| Total assets | \$ 9,544 | \$ 100,282 | \$ 97,000 | \$ 12,826 |
| LIABILITIES | | | | |
| Intergovernmental payables | \$ 9,544 | \$ 50,829 | \$ 47,547 | \$ 12,826 |
| Total liabilities | \$ 9,544 | \$ 50,829 | \$ 47,547 | \$ 12,826 |

(Continued)

State of Illinois
Department of Revenue

**Combining Statement of Changes in Assets and Liabilities -
Agency Funds**

For the Year Ended June 30, 2013 (Expressed in Thousands)

| | Balance at July 1, 2012 | Additions | Deletions | Balance at June 30, 2013 |
|---|----------------------------|-------------------|-------------------|-----------------------------|
| Flood Prevention Occupation Tax (0558) | | | | |
| ASSETS | | | | |
| Cash equity in State Treasury | \$ 2,648 | \$ 11,504 | \$ 11,198 | \$ 2,954 |
| Taxes receivable, net | 297 | 11,886 | 11,504 | 679 |
| Total assets | \$ 2,945 | \$ 23,390 | \$ 22,702 | \$ 3,633 |
| LIABILITIES | | | | |
| Intergovernmental payables | \$ 2,945 | \$ 11,886 | \$ 11,198 | \$ 3,633 |
| Total liabilities | \$ 2,945 | \$ 11,886 | \$ 11,198 | \$ 3,633 |
| Tax Suspense Trust (0583) | | | | |
| ASSETS | | | | |
| Cash equity in State Treasury | \$ 46 | \$ - | \$ 1 | \$ 45 |
| Total assets | \$ 46 | \$ - | \$ 1 | \$ 45 |
| LIABILITIES | | | | |
| Other liabilities | \$ 46 | \$ - | \$ 1 | \$ 45 |
| Total liabilities | \$ 46 | \$ - | \$ 1 | \$ 45 |
| Metro East Park and Recreation (0717) | | | | |
| ASSETS | | | | |
| Cash equity in State Treasury | \$ 1,107 | \$ 4,453 | \$ 4,360 | \$ 1,200 |
| Taxes receivable, net | 60 | 4,658 | 4,453 | 265 |
| Total assets | \$ 1,167 | \$ 9,111 | \$ 8,813 | \$ 1,465 |
| LIABILITIES | | | | |
| Intergovernmental payables | \$ 1,167 | \$ 4,658 | \$ 4,360 | \$ 1,465 |
| Total liabilities | \$ 1,167 | \$ 4,658 | \$ 4,360 | \$ 1,465 |
| Municipal Telecommunications Fund (0719) | | | | |
| ASSETS | | | | |
| Cash equity in State Treasury | \$ 52,908 | \$ 270,803 | \$ 271,267 | \$ 52,444 |
| Taxes receivable, net | 1,172 | 273,897 | 273,422 | 1,647 |
| Due from other Department funds | 21,375 | 2,619 | - | 23,994 |
| Total assets | \$ 75,455 | \$ 547,319 | \$ 544,689 | \$ 78,085 |
| LIABILITIES | | | | |
| Accounts payable and accrued liabilities | \$ 7,048 | \$ 3,122 | \$ - | \$ 10,170 |
| Intergovernmental payables | 68,407 | 270,775 | 271,267 | 67,915 |
| Total liabilities | \$ 75,455 | \$ 273,897 | \$ 271,267 | \$ 78,085 |

(Continued)

State of Illinois
Department of Revenue

**Combining Statement of Changes in Assets and Liabilities -
Agency Funds**

For the Year Ended June 30, 2013 (Expressed in Thousands)

| | Balance at July 1, 2012 | Additions | Deletions | Balance at June 30, 2013 |
|--|----------------------------|---------------------|---------------------|-----------------------------|
| RTA Sales Tax Trust (0812) | | | | |
| ASSETS | | | | |
| Cash equity in State Treasury | \$ 114,525 | \$ 1,104,407 | \$ 1,118,104 | \$ 100,828 |
| Securities lending collateral equity with State Treasurer | 32,735 | 389,755 | 385,536 | 36,954 |
| Taxes receivable, net | 74,800 | 996,062 | 980,587 | 90,275 |
| Other receivables, net | 23 | 250 | 255 | 18 |
| Due from other Department funds | 20,742 | 134,234 | 123,565 | 31,411 |
| Total assets | \$ 242,825 | \$ 2,624,708 | \$ 2,608,047 | \$ 259,486 |
| LIABILITIES | | | | |
| Intergovernmental payables | \$ 210,090 | \$ 1,130,546 | \$ 1,118,104 | \$ 222,532 |
| Obligations under securities lending of State Treasurer | 32,735 | 389,755 | 385,536 | 36,954 |
| Total liabilities | \$ 242,825 | \$ 1,520,301 | \$ 1,503,640 | \$ 259,486 |
| Metro East Mass Transit Dist. Tax (0841) | | | | |
| ASSETS | | | | |
| Cash equity in State Treasury | \$ 6,863 | \$ 29,740 | \$ 29,443 | \$ 7,160 |
| Securities lending collateral equity with State Treasurer | 2,557 | 35,843 | 34,470 | 3,930 |
| Taxes receivable, net | 811 | 30,677 | 29,718 | 1,770 |
| Other receivables, net | 2 | 22 | 22 | 2 |
| Total assets | \$ 10,233 | \$ 96,282 | \$ 93,653 | \$ 12,862 |
| LIABILITIES | | | | |
| Intergovernmental payables | \$ 7,676 | \$ 30,699 | \$ 29,443 | \$ 8,932 |
| Obligations under securities lending of State Treasurer | 2,557 | 35,843 | 34,470 | 3,930 |
| Total liabilities | \$ 10,233 | \$ 66,542 | \$ 63,913 | \$ 12,862 |
| Tennessee Valley Authority Local Trust (0861) | | | | |
| ASSETS | | | | |
| Cash equity in State Treasury | \$ - | \$ 318 | \$ 317 | \$ 1 |
| Total assets | \$ - | \$ 318 | \$ 317 | \$ 1 |
| LIABILITIES | | | | |
| Intergovernmental payables | \$ - | \$ 1 | \$ - | \$ 1 |
| Total liabilities | \$ - | \$ 1 | \$ - | \$ 1 |

(Continued)

State of Illinois
Department of Revenue

**Combining Statement of Changes in Assets and Liabilities -
Agency Funds**

For the Year Ended June 30, 2013 (Expressed in Thousands)

| | Balance at July 1, 2012 | Additions | Deletions | Balance at June 30, 2013 |
|--|----------------------------|------------------|------------------|-----------------------------|
| Municipal Automobile Renting Tax (0868) | | | | |
| ASSETS | | | | |
| Cash equity in State Treasury | \$ 1,362 | \$ 6,197 | \$ 6,056 | \$ 1,503 |
| Securities lending collateral equity with State Treasurer | 468 | 7,485 | 7,157 | 796 |
| Taxes receivable, net | 138 | 6,668 | 6,197 | 609 |
| Total assets | \$ 1,968 | \$ 20,350 | \$ 19,410 | \$ 2,908 |
| LIABILITIES | | | | |
| Intergovernmental payables | \$ 1,500 | \$ 6,668 | \$ 6,056 | \$ 2,112 |
| Obligations under securities lending of State Treasurer | 468 | 7,485 | 7,157 | 796 |
| Total liabilities | \$ 1,968 | \$ 14,153 | \$ 13,213 | \$ 2,908 |
| County Automobile Renting Tax (0869) | | | | |
| ASSETS | | | | |
| Cash equity in State Treasury | \$ 40 | \$ 279 | \$ 248 | \$ 71 |
| Securities lending collateral equity with State Treasurer | 11 | 296 | 270 | 37 |
| Taxes receivable, net | 15 | 290 | 279 | 26 |
| Total assets | \$ 66 | \$ 865 | \$ 797 | \$ 134 |
| LIABILITIES | | | | |
| Intergovernmental payables | \$ 55 | \$ 290 | \$ 248 | \$ 97 |
| Obligations under securities lending of State Treasurer | 11 | 296 | 270 | 37 |
| Total liabilities | \$ 66 | \$ 586 | \$ 518 | \$ 134 |
| Surety Bond (1151) | | | | |
| ASSETS | | | | |
| Cash and cash equivalents | \$ 1,642 | \$ 5 | \$ 528 | \$ 1,119 |
| Total assets | \$ 1,642 | \$ 5 | \$ 528 | \$ 1,119 |
| LIABILITIES | | | | |
| Other liabilities | \$ 1,642 | \$ 5 | \$ 528 | \$ 1,119 |
| Total liabilities | \$ 1,642 | \$ 5 | \$ 528 | \$ 1,119 |

(Continued)

State of Illinois
Department of Revenue

**Combining Statement of Changes in Assets and Liabilities -
Agency Funds**

For the Year Ended June 30, 2013 (Expressed in Thousands)

| | Balance at July 1, 2012 | Additions | Deletions | Balance at June 30, 2013 |
|--|----------------------------|---------------------|---------------------|-----------------------------|
| Total - All Agency Funds | | | | |
| ASSETS | | | | |
| Cash equity in State Treasury | \$ 403,774 | \$ 3,153,128 | \$ 3,139,330 | \$ 417,572 |
| Cash and cash equivalents | 1,642 | 5 | 528 | 1,119 |
| Securities lending collateral equity with State Treasurer | 132,993 | 1,753,496 | 1,728,884 | 157,605 |
| Taxes receivable, net | 209,205 | 3,038,024 | 3,030,729 | 216,500 |
| Other receivables, net | 94 | 1,117 | 1,135 | 76 |
| Due from other Department funds | 43,646 | 136,853 | 123,565 | 56,934 |
| Total assets | \$ 791,354 | \$ 8,082,623 | \$ 8,024,171 | \$ 849,806 |
| LIABILITIES | | | | |
| Accounts payable and accrued liabilities | \$ 8,569 | \$ 4,620 | \$ 2,378 | \$ 10,811 |
| Intergovernmental payables | 648,104 | 3,136,883 | 3,104,761 | 680,226 |
| Obligations under securities lending of State Treasurer | 132,993 | 1,753,496 | 1,728,884 | 157,605 |
| Other liabilities | 1,688 | 5 | 529 | 1,164 |
| Total liabilities | \$ 791,354 | \$ 4,895,004 | \$ 4,836,552 | \$ 849,806 |

(Concluded)

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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, 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, 2013, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements and have issued our report thereon dated February 25, 2014.

Internal Control Over Financial Reporting

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

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 that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses and 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 the deficiencies described in the accompanying schedule of findings as items 2013-001 and 2013-002 to be material weaknesses.

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 deficiencies described in the accompanying schedule of findings as items 2013-003 through 2013-006 to be significant deficiencies.

Compliance and Other Matters

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

Department's Responses to Findings

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

Purpose of this Report

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



Springfield, Illinois
February 25, 2014

STATE OF ILLINOIS
DEPARTMENT OF REVENUE

SCHEDULE OF FINDINGS

CURRENT FINDINGS
(GOVERNMENT AUDITING STANDARDS)

2013-001 **FINDING:** (Inaccuracies in the Department's year-end financial reporting process)

The Department of Revenue's (Department) initial year-end financial reporting in accordance with generally accepted accounting principles (GAAP) to the Illinois Office of the Comptroller contained inaccuracies. The issues associated with the inaccuracies, if not detected and corrected, could misstate the Department's financial statements and impact the Statewide financial statements prepared by the Illinois Office of the Comptroller.

During the audit of the Department's June 30, 2013 financial statements, the auditors noted errors regarding the reporting of financial information. A summary of some of the errors identified are as follows:

- Auditors noted errors in the Department's calculation of sales taxes due to local governments at year end. In order to prepare the GAAP packages in a timely fashion the Department estimates the amount of sales taxes that will be paid to the local governments in September for sales tax receipts incurred in June. Once the actual disbursements are determined the estimate is compared to actual and adjustments determined to be material are made by the Department. During this process, the Department used incorrect information and the adjustments made to the taxes receivables and due to local governments were not based upon September 2013 actual disbursements. As a result, taxes receivables and amounts due to the local governments were overstated by a net amount of \$18.7 million. The Department adjusted the calculation and notified the Illinois Office of the Comptroller and requested journal entries to be made to four of the Department's closed GAAP Reporting packages for a net amount of \$7.5 million. The remaining misstatement of \$11.2 million across twelve funds was not considered material at the fund level by the Department and was not corrected as of June 30, 2013.
- Auditors noted errors in the Department's calculation of lapse period collections for business income taxes and sales taxes. In accumulating the lapse period collections for business income taxes, the Department incorrectly excluded receipts in July and August 2013 from tax returns whose transactions occurred during the fiscal year. As a result, the lapse period collections, and therefore, the taxes receivables were understated by \$10.2 million. In accumulating the lapse period collections for sales taxes, the Department incorrectly included the lapse period assessment receipts in July and August 2013 in both the lapse period collections and the lapse period assessments. As a result, the lapse period collections, and therefore, the taxes receivables reported were overstated by \$20.8 million. The misstatements were not considered material at the fund level by the Department and the 18 funds impacted were not corrected as of June 30, 2013.

Department personnel stated their financial reporting process is very complicated with 94 funds, outdated and manual accounting systems, and a lack of appropriate resources given the time allowed for GAAP / fiscal year end reporting. Department personnel also acknowledged that the financial reporting process is a manual process utilizing system generated reports and spreadsheet calculations to convert cash basis accounting records to accrual basis, where the high volume of manual processes compounded by rigid time constraints contributed to human errors.

- During testing of the Department's accounts receivable from sales tax (ROT) and income tax accounts, Business, Withholding, and Individual, auditors noted exceptions with certain accounts. Auditors identified a number of exceptions related to accounts receivable from income and sales tax accounts. A summary of some of the exceptions identified are as follows:
 - Eight ROT tax accounts tested had incorrect interest, totaling \$28,423 being applied at June 30, 2013 due to interest: a) not being applied through June 30; b) short term interest and long term interest not being applied appropriately; c) amnesty interest not being applied appropriately; or d) the basis on which the penalty was to be applied was not correct.
 - One Business Income Tax account tested had a duplicate late payment penalty applied to the account which results in accounts receivable being overstated by \$64,970.

The errors noted above and other errors associated with this testing were projected to the entire billed income tax receivable populations, and the projected estimated overstatement for the populations as a whole is \$3.3 million. The adjustment was not considered material by the Department and no adjustment was made to the financial statements.

- One Business Income Tax account tested had a Notice of Deficiency (NOD) of \$2,891,613 that was issued before June 30, 2013. The resulting assessment from the NOD was subsequently canceled on September 23, 2013 after the taxpayer provided necessary documentation to complete the audit process. The subsequent cancellation of the assessment resulted in the accounts receivable being overstated by a net amount of \$2,871,950 at June 30, 2013. Upon the auditors bringing this to the Department's attention, the Department reviewed all NOD's issued prior to June 30, 2013 with protest periods open and found no other accounts where the NOD was subsequently canceled after issuance. The effect of this overstatement was not considered material by the Department and was not adjusted at June 30, 2013.

Department personnel stated most of the errors noted by the auditors are not errors in the taxpayer accounts, but are merely timing differences for accrual accounting purposes. The true errors that have occurred are the result of human errors due to entering data into the system and manual calculations being performed by Department personnel. Department personnel noted they continually strive for perfection, but a certain amount of errors will always be inherent in such a complex operating environment.

- During testing of the Department's accounts receivable from Business Income Tax accounts, auditors noted taxpayer settlements completed before the fiscal year end that had not been entered into GenTax. As the taxpayer accounts were not updated within GenTax the accounts were incorrectly included in the accounts receivable balance which results in accounts receivable being overstated by approximately \$1.4 million. Additional information regarding the settled taxpayer information is reported in Finding 2013-002.

The Comptroller requires State agencies to prepare GAAP Reporting Packages for each of their funds to assist in the annual preparation of the Statewide financial statements and the Department financial statements. GAAP Reporting Package instructions are specified in the Comptroller's Statewide Accounting Management System (SAMS) Manual, Chapter 27.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system of internal fiscal control 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 reliable financial reports.

The Department's Publication 103, Penalties and Interest for Illinois Taxes, states, "Interest will begin to accrue the day after the date the payment is due through the date you pay the tax."

In accordance with GASB Statement No. 33, Paragraph 16, *Accounting and Financial Reporting for Nonexchange Transactions*, governments should recognize assets from derived tax revenue transactions in periods when the exchange transaction on which the tax is imposed occurs or when the resources are received, whichever, occurs first. Resources received in advance should be reported as deferred revenues (liabilities) until the period of the exchange. In accordance with this guidance, the amount of any tax assessment and accrued penalties and interest should be recorded by the Department as a receivable, net of an allowance for uncollectable amounts. Further, there is no provision in the standard to delay recognition of these types of transactions until the accounts are fully processed.

As a result of the exceptions noted, the initial GAAP Reporting Packages submitted to the Office of the Comptroller were misstated. In addition, the exceptions noted have the potential to misstate the Department's financial statements. Accurate preparation of the Department's financial information for GAAP and financial reporting purposes is important due to the impact adjustments have on the Statewide financial statements. (Finding Code No. 2013-001, 12-01)

RECOMMENDATION:

We recommend the Department take steps to improve the review process of the underlying data that helps compile the financial statements.

DEPARTMENT RESPONSE:

The Department agrees that it should always be taking steps to improve the financial reporting process and the underlying data used to compile the financial statements. The Department recognized that human errors occurred during the process of preparing the financial statements. There are a number of complex calculations and adjustments that require manual intervention or changes to properly process data. Enhancements continue to be made to reduce manual processes and improve upon the review process.

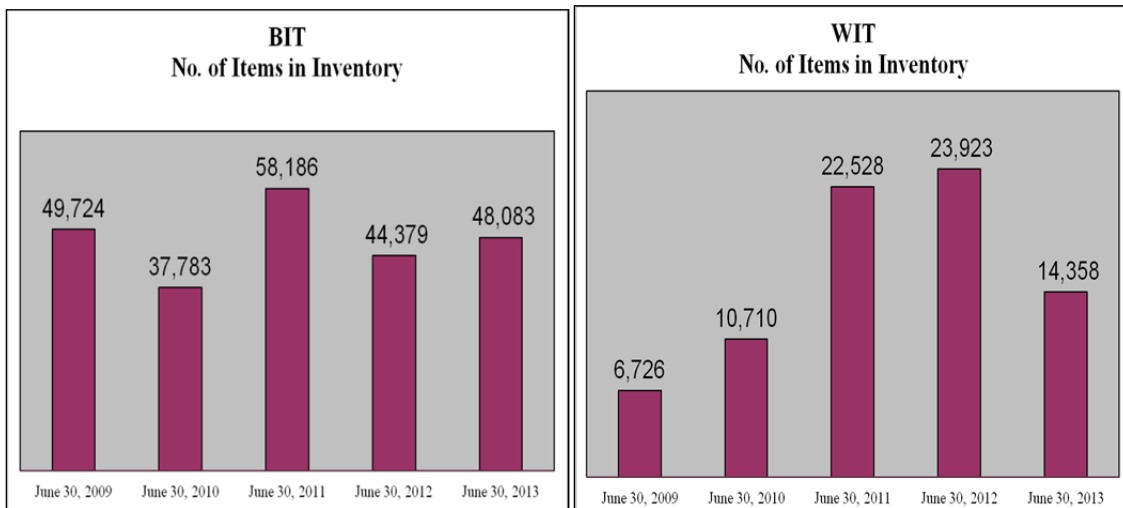
The Department takes great pride in the high level of system testing, reviews, and year-end financial reporting work that it performs in order to produce materially correct financial statements for GAAP reporting purposes during a short window of time. Materiality is considered not only in relation to the nearly \$41 billion in total taxes collected and \$1.5 billion in net taxes receivable, but also at the individual fund level. Any material adjustments were completed at the fund level. The Notice of Deficiency issue was accurate at the time the financial statements were prepared, but was canceled upon receiving additional taxpayer information.

It is important to note that perfected sales taxes were correctly distributed to local governments.

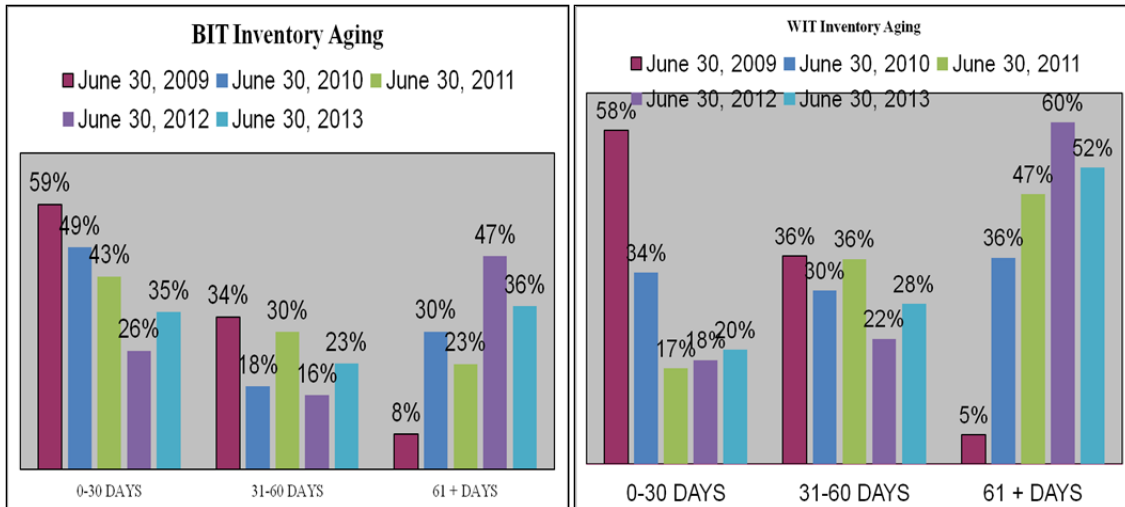
2013-002 FINDING: (Taxpayer information pending finalization)

During testing, auditors noted the Department of Revenue (Department) has sustained a level of inventory of Business Income Tax (BIT) and Withholding Income Tax (WIT) taxpayer information to be finalized.

Taxpayer information to be finalized consists of returns that are data entered but need further manual review and taxpayer correspondence that has been received but yet to be processed. Because of the statutory filing dates of the various required tax returns, the Department will always have a certain level of taxpayer information that is in inventory awaiting processing. With sustained levels of taxpayer information at fiscal year-end, particularly with BIT, the final disposition (i.e. payment due to the Department (account receivable), payment due to the taxpayer (refund) or no balance) of this taxpayer information cannot be determined, which prevents the Department from taking this information into consideration in their financial statement preparation process. Auditors noted the inventory of taxpayer information to be processed and finalized at June 30, 2013 in the following charts:



Auditors found the inventory of BIT and WIT taxpayer information 61+ days old had decreased from the amounts reported at June 30, 2012, but it is still higher than at June 30, 2009, 2010, and 2011, as noted in the following charts:



One segment of the Department’s inventory consists of original tax returns to be finalized. When taxpayer information is entered into the Department’s tax processing system (GenTax), certain returns are automatically flagged by GenTax that require additional manual processing to finalize, which creates this category of inventory. These flags are attached for various reasons including mathematical errors, missing tax forms, etc. While this segment has improved from the prior year, the inventory is higher than the previous few years and is predominantly business income tax returns.

It is the Department’s policy to exclude the indicated balances due on these returns from the financial statements, because the true balances are unknown until the returns are manually worked by the Department’s tax specialists. The Department has disclosed information related to this inventory of returns in the notes to the Department’s financial statements.

At June 30, 2013, the value carried in GenTax related to original taxpayer returns to be finalized was \$2.2 billion (representing 101,172 returns). Although it is generally agreed the vast majority of the \$2.2 billion is invalid and will be reduced upon the tax information being finalized, the Department has represented there is no reasonable methodology or process for estimating the valid receivable amount of these partially processed returns. The number and amount of these returns over the prior years are as follows:

| Year Ended | No. of Original Returns to be Processed and Finalized (All Tax Types) | GenTax Value of Original Returns to be Processed and Finalized (Billions) |
|-------------------|--|--|
| June 30, 2009 | 41,517 | \$0.1 |
| June 30, 2010 | 55,766 | \$0.2 |
| June 30, 2011 | 68,862 | \$4.7 |
| June 30, 2012 | 217,822 | \$5.5 |
| June 30, 2013 | 101,172 | \$2.2 |

In addition to the inventory noted above, during fiscal year 2013 testing auditors identified inventories of settled taxpayer information that had not been processed by the Department and/or taken into consideration for financial statement reporting purposes. In their testing, auditors considered “settled taxpayer information” to be defined as taxpayer information where there is a legally executed agreement, signed and dated between the taxpayer and the Department that sets forth the terms, including the amounts or other changes both parties have agreed to, as well as court restitution orders. The more significant inventories of settled taxpayer information were identified in the Department’s Bureau of Criminal Investigations, Legal Division and Audit Bureau.

The inventory of settled taxpayer information within the Bureau of Criminal Investigations area consists of court restitution orders. Upon the auditors’ requests for detailed information, Department management indicated there was not a consolidated system to generate all the information. A subsequent review by Department management determined amounts due to the Department at June 30, 2013 related to court restitution orders was approximately \$7.1 million. Department management reviewed the court restitution orders and determined approximately \$2.8 million, gross of an allowance for uncollectable accounts, was omitted from the Department’s computation of accounts receivable. On a net basis, the effect was not considered material by the Department and was not adjusted at June 30, 2013.

The inventory of settled taxpayer information within the Legal Division and Audit Bureau consists of either Department negotiated or court settlements with taxpayers. As noted above the Department and the taxpayer have signed a settlement agreeing to the terms. Because of processing issues the result of the settlements had not been entered into GenTax. Auditors were provided information by the Department regarding 103 inventory items related to taxpayer settlements that had not been entered into GenTax. Some of the inventory items related to the same taxpayer but different years. In order to determine if these settlements have a financial effect the auditors selected 23 taxpayers to test, again many of which covered multiple years. The results of the testing noted \$19.7 million gross of an allowance for uncollectable accounts should have been included in the Department’s computation of accounts receivable. On a net basis accounts receivable is overstated by approximately \$1.4 million. In addition, \$20 million should have been taken into consideration in the Department’s computation of refunds payable. Factoring the \$20 million in the refunds payable estimation, refunds payable is understated by approximately \$1.4 million. On a net basis, the effect was not considered material by the Department and was not adjusted at June 30, 2013.

In accordance with Generally Accepted Accounting Principles (GAAP) and as noted in GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, governments should recognize assets from derived tax revenue transactions in the period when the exchange transaction on which the tax is imposed occurs (this occurs as individuals and corporations earn income) or when the resources are received, whichever comes first. There is no provision in the standard to delay recognition of these types of transactions until the accounts are fully processed. However, recognition of nonexchange transactions in the financial statements is not required if the transactions are not measurable (reasonably estimable) or are not probable of collection. Transactions that are not recognizable because they are not measurable should be disclosed.

Further, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires State agencies establish and maintain a system, or systems, of internal fiscal and administrative controls to 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.

In response to this finding from the prior audit, the Department stated it would seek additional resources to help resolve the issue. The high levels of taxpayer information pending finalization improved for the year ended June 30, 2013. Department personnel stated the significant level of inventory of taxpayer information to be processed and finalized was due to the Department incorporating more anti-fraud measures, procedures, and data analysis to identify fraud, discover identity theft, and ensure taxpayers are providing information as defined by State statute and Department policy in their process of returns. Department personnel indicated the settled taxpayer information was not included in the determination of the accounts receivable and refunds payable for financial reporting purposes because the information was not fully processed through the Department's tax processing system and there were no system indicators to identify that the status had changed or that there were any significant settlements that would have had a material financial statement impact.

Failure to process and finalize the taxpayer information and determine the final disposition delays the recognition of receivables, deferred revenue, and tax revenue in the financial statements. In addition, failure to take settled taxpayer information not entered into GenTax into consideration for financial reporting purposes can lead to the Department's financial statements, accounts receivable and refunds payable, not being fairly stated. (Finding Code No. 2013-002, 12-02, 11-01)

RECOMMENDATION:

We recommend the Department continue to seek sufficient resources to process taxpayer information such that the inventory of taxpayer information to be finalized is reduced from its current levels. We also recommend the Department take into consideration the inventory of settled taxpayer information not entered into GenTax when gathering information for year-end financial reporting.

DEPARTMENT RESPONSE:

Processing

We agree with the auditors that the Department should seek sufficient resources to process taxpayer information in a timely manner and that effort continues. As stated in the finding, the establishment of edit checks, which creates the inventories, is a critical part of the operations of the Department and is critical to combating fraud and identity theft. The inventories represent the accounts on which the Department is performing additional due diligence in order to ensure the taxpayer is in compliance with tax laws and to validate refunds due or amounts owed. June 30 inventory levels will always be the highest of the year, due to the tax filing deadline of April 15.

To put the inventories in perspective, the Department receives approximately eight million individual income tax, business income tax and withholding income tax returns covering an annual tax period. On June 30, 2013, the 101,172 returns in inventory noted by the auditors amounts to less than 1.3% of the returns received.

While it would be preferable for financial reporting purposes to process all inventory and have more precise balances, our highest volume of tax returns are received just prior to our fiscal year-end. GASB 33 points out that states are likely to recognize amounts based on practical considerations. While we agree that inventories should be minimized as much as possible, we also believe that our reporting of such inventory awaiting finalization is in compliance with GAAP.

Bureau of Criminal Investigation Inventory

The Department hired a restitution officer in November 2013 who is responsible for the central processing of all BCI activities, including developing procedures, recording amounts due and the related payments. All existing restitution orders and payments have been entered in GenTax to allow for tracking. BCI activity will be integrated into GenTax at a future date.

Legal Services and Audit Bureau Inventories

Due to the time and complexity of the multiple steps involved to finalize the litigation matters, including some which rely on parties outside the Department, settlements executed prior to June 30th may not be fully processed in GenTax for financial reporting. The Department will develop procedures to record and monitor the various stages of settlements and include communication to Revenue Accounting as needed to allow for financial statement analysis.

2013-003 FINDING: (Internal control reviews of external service providers not obtained or performed)

The Department of Revenue (Department) did not obtain or perform internal control reviews of external service providers used to data enter tax returns and process mail.

The Department uses two external service providers to provide data entry services for many sales, business, individual and withholding income tax returns. In addition, the Department utilizes two other external service providers to process mail for the Department. Of the total returns received by the Department, 27% of the volume is processed and 53% of the mail is handled by these four external service providers.

The Department performs periodic site visits of the service providers to monitor certain compliance requirements. The Department did not obtain Service Organization Internal Control (SOC) Reports or independent internal control reviews from any of these service providers. The Department's Internal Audit division also did not perform internal control reviews of these service providers during fiscal year 2013.

In response to this finding in the prior year, the Department stated its Internal Audit division would perform reviews of the data entry vendors starting in fiscal year 2012 as part of the two-year audit plan to get appropriate coverage for these contracted services. The Department's Internal Audit division would also review the Department's procedures for oversight of the data entry service providers. Department personnel stated they continuously monitor the data entered returns from the vendors in the same manner as returns that go through data entry internally in the Department and there is no requirement for the service providers to have SOC Reports completed.

Department personnel stated the Internal Audit division initially lacked sufficient resources to perform a review of the external service providers. Department personnel also noted they were able to hire an internal auditor on July 31, 2013, and the external reviews were initiated shortly thereafter, and have since been completed.

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. Strong management controls, due diligence and fiduciary responsibility require adequate supervision of externally controlled service providers to provide assurance that taxpayer and financial information is properly recorded and accounted for.

Independent reviews provide a method of evaluating the systems in place at each service provider and help the Department develop processes that would best complement those at each service provider. SOC Reports performed in accordance with the applicable standards are a mechanism by which the Department can expect to receive uniformity within evaluations performed.

Without having performed or obtained and reviewed a SOC Report or another form of independent internal control review, the Department does not have assurance the external service providers' internal controls are adequate to ensure the taxpayer account balances and revenue recorded from such returns are accurate and reliable. (Finding Code No. 2013-003, 12-03, 11-03, 10-06, 09-13)

RECOMMENDATION:

We recommend the Department obtain or perform an internal control review of all externally controlled service providers. These internal control reviews can be performed by the Department's Internal Audit division or a qualified external firm. If the Department's Internal Audit division does not perform the internal control reviews, we recommend the Department obtain and review copies of independent reviews performed by external firms.

The internal control reviews should address all applicable policies, practices, controls, and safeguards utilized or needed by the service providers to safeguard the taxpayer data entered into the tax returns. Areas to include in the reviews should be identified based upon the specific services provided by the vendor and its environment.

User controls delineated within the reports should be implemented and monitored by the Department. Corrective action should be taken promptly on findings and other weaknesses noted as a result of the internal control reviews. Any SOC reports, reviews, and corrective action taken by the Department should be documented and maintained for review by the external auditors.

DEPARTMENT RESPONSE:

We agree that the Department should periodically obtain or perform such reviews of external service providers that we retain to enter tax returns and process mail, and in fact, Internal Affairs and Processing perform periodic on-site compliance reviews, as well as routinely review work received from the vendors. In addition, Internal Audit has completed internal control reviews of the externally controlled service providers noted in the finding.

2013-004 FINDING: (Controls and Safeguards Over the Processing of Taxpayer Information)

The Department of Revenue (Department) has not completely implemented controls and safeguards over processing taxpayer information. During fiscal year 2013, the Department processed 19.6 million tax receipt documents throughout its facilities, totaling \$40.2 billion.

The Department receives and uses federal tax information (FTI) to verify information contained on various State tax returns; therefore, under the Internal Revenue Service's definition of comingling, the information on the Department's tax processing system (GenTax) related to Business Income Tax (BIT) and Individual Income Tax (IIT) is considered FTI and should be handled as such. FTI includes any return, Revenue Agent's Report, transcript, or any information received on diskette and/or any other electronic transmission of data received from the Internal Revenue Service (IRS). This includes all of the IRS extract files received by the Department. Any detailed information printed or copied or used in any manner, including screen prints and/or detailed reports, with specific taxpayer information from GenTax that includes BIT and/or IIT information should be handled as FTI.

During testing auditors noted instances in which the Department's internal controls to protect taxpayer information contained weaknesses. Weaknesses were noted in the following areas:

- Auditors noted weaknesses in certain physical safeguards to control access to areas within the Department as well as the storage of taxpayer information.
- The Department identified an instance where controls over processing of taxpayer information were not sufficient regarding assignment of taxpayer information to be processed by an employee. The Department brought to the auditors' attention an issue where an employee failed to timely process 6,735 taxpayer documents affecting 5,270 taxpayers. Some of the taxpayer documents dated back to 2008.

The Department is responsible for ensuring the confidentiality of tax information within its possession. The Department maintains data that is covered by both State and Federal requirements. The State's disclosure statutes are within the Retailers' Occupation Tax Act (35 ILCS 120/11) and the Illinois Income Tax Act (35 ILCS 5/917). The Internal Revenue Code (26 U.S. Code §6103(a)) requires returns and return information shall be confidential and no State officer or employee shall disclose return information for unofficial purposes. Further, the Code defines "return information" as "a taxpayer's identity, the nature, source, or amount of his income, payments, receipts, deductions, exemptions, credits, assets, liabilities, net worth, tax liability, tax withheld, deficiencies, overassessments, or tax payments...".

To address data received from the IRS, the Department developed a definition of what information is considered FTI, which was approved by the Project Manager of the IRS Office of Safeguards. In addition, the Department is required to ensure all tax information is protected in accordance with the Internal Revenue Service's Publication 1075, Tax Information Security Guidelines for Federal, State, and Local Agencies, Safeguards for Protecting Federal Tax Returns and Return Information.

The State statute and IRS Publication 1075 require the Department ensure it safeguards federal tax information from unauthorized disclosure. Specifically, section 4.1 of IRS Publication 1075 states, "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, [and] electronic security systems."

The Fiscal Control and Internal Auditing Act (30 ILCS I 0/3001) requires State agencies to establish 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."

In response to the prior finding, the Department stated the IRS certified their most recent Safeguard Procedures Report (SPR) via a letter dated November 29, 2012 accepting the report as certification that the confidentiality of FTI is adequately protected. The SPR is a record prepared by the Department of how FTI is received and processed and contains additional information provided by the Department to address open IRS findings. In addition, the Department noted they receive recommendations from internal reviews, third party security consultants and the IRS and implement those recommendations as quickly as possible. The Department went on to note they had been allocated \$1 million in fiscal year 2013 and had requested \$5 million in fiscal year 2014 for security initiatives. Department personnel indicated that implementation of the recommendation from the previous finding was not fully accomplished due to lack of time to implement the recommendation and not receiving all the requested funding.

Department personnel stated they have made significant improvements over the area of protection of taxpayer records. Further, Department personnel stated this is a continuing effort and they are continually making improvements as recommendations from their Security Consultant are completed and funding is available to enact the recommendations. Department personnel indicated the untimely processing of taxpayer information was the result of an employee not completing their work as assigned and concealing the documents in non-visible areas.

The Department has the responsibility to ensure only authorized individuals have access to taxpayer information and taxpayer payments. Failure to completely implement controls and safeguards could result in taxpayer identity theft or unintended use and the misappropriation of taxpayer payments.

In addition, Department controls should ensure taxpayer information assigned to employees for processing is tracked and monitored to ensure timely processing is performed. Failure to timely process taxpayer information can lead to untimely collection of tax due the State or interest due to the taxpayer on delayed refunds. Untimely processing of taxpayer information can also lead to additional correspondence from other areas of the Department to taxpayers since there is no record of the taxpayer information being processed in the GenTax system. (Finding Code No. 2013-004, 12-05, 11-06, 10-09)

RECOMMENDATION:

We recommend the Department ensure taxpayer information is adequately protected during both business and non-business hours from potential unauthorized access as mandated by State statute and IRS Publication 1075. We also recommend that the Department improve controls regarding the assignment and monitoring of taxpayer information assigned for processing.

DEPARTMENT RESPONSE:

The Department agrees with the importance of safeguarding physical taxpayer information and continues to implement compensating controls that limit/restrict access to it in our buildings. The agency has relocated non-IDOR employees to public areas. We also have implemented improved controls to help prevent recurrence of the kind of incident referenced in the second bullet point. As funding is available, IDOR continues to implement other physical controls that are consistent with the two-barrier security plan. As new threats to security emerge, the effort to make improvements evolves to meet them. It should be noted that no state meets all the requirements of publication 1075. The IRS expects to see continuous improvements and the Department has ongoing discussions with the IRS to ensure that we are meeting its expectations regarding safeguarding data.

2013-005 FINDING: (Conflict in provisions of the Illinois Income Tax Act and State Revenue Sharing Act)

Conflicts exist with provisions of the State Revenue Sharing Act (30 ILCS 115) and the Illinois Income Tax Act (35 ILCS 5/901), as both of these Acts were impacted by the passage of Public Act 096-1496, the Taxpayer Accountability and Budget Stabilization Act.

During fiscal year 2011, the General Assembly passed and the Governor signed Public Act 096-1496, which increased the State income tax rates on individuals, trusts, estates, and corporations and contained amendatory provisions to update existing State law.

During testing, auditors noted the following:

- The Illinois Income Tax Act (35 ILCS 5/901(c)) was not amended by Public Act 096-1496 to authorize deposits of a portion of income tax receipts by the Department into the Income Tax Refund Fund. During fiscal year 2013, the Department deposited approximately \$2.5 billion into the Income Tax Refund Fund from income tax collections, with an unknown portion of these receipts representing taxes collected from the new tax rates. Auditors noted these deposits represented all income tax receipt types.
- Prior to Public Act 096-1496, the Illinois Income Tax Act (35 ILCS 5/901(b)) and the State Revenue Sharing Act (30 ILCS 115/1) were harmonious statutes directing the Department to transfer 10% of the prior month's income tax receipts deposited into both the General Revenue Fund and the Education Assistance Fund from the General Revenue Fund to the Local Government Distributive Fund. Public Act 096-1496 amended the Illinois Income Tax Act to change the transfer percentage to 6.86% for receipts from corporate tax collections and 6% for receipts from individual, estate, and trust collections; however the State Revenue Sharing Act was not amended. From a review of the statutes, it does not appear a supremacy clause or other language directs which statute controls in this situation. Auditors noted the Department transferred funds into the Local Government Distributive Fund in accordance with the Illinois Income Tax Act (35 ILCS 5/901(b)), during fiscal year 2013, which means it was not complying with the State Revenue Sharing Act (30 ILCS 115/1) and transferring 10% of receipts. As a result of the conflicting provisions between the two statutes if the Department had followed the State Revenue Sharing Act they would have transferred an additional \$828 million to the Local Government Distributive Fund during fiscal year 2013.

Department personnel stated they believed they followed the intent of the General Assembly and that an oversight in Public Act 096-1496 created a conflict between statutes. It is the Department's legal opinion that the most recent Act of the General Assembly supersedes the older Act with which it conflicts; therefore, deposits into the Income Tax Refund Fund and transfers into the Local Government Distributive Fund were properly made.

In response to this finding from the previous audit, the Department stated it would seek legislative changes to the Illinois Income Tax Act (35 ILCS 5/901(c)) to authorize deposits of a portion of the income tax receipts into the Income Tax Refund Fund and to the State Revenue Sharing Act to reflect the new percentages transferred to the Local Government Distributive Fund established by Public Act 096-1496 amending the Illinois Income Tax Act (35 ILCS 5/901(b)). The Department stated, in its response to that finding, the corrective language had been written and it continued to work to get the legislation enacted. However, the desired legislative language changes were not obtained during the audit period.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance that resources are used in compliance with applicable law and 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.

Functioning with inconsistent State laws results in the Department performing functions not specifically directed by the General Assembly and could subject the Department to legal risks. (Finding Code No. 2013-005, 12-06, 11-09)

RECOMMENDATION:

We recommend the Department continue to seek legislative remedy to the conflicting provisions of the State Revenue Sharing Act (30 ILCS 115) and the Illinois Income Tax Act (35 ILCS 5/901).

DEPARTMENT RESPONSE:

The Department continues to seek the legislative changes described above. The corrective language has been written and the Department is working to get the legislation enacted.

2012-006 FINDING: (Weaknesses in controls over Sales and Use Tax receipts)

Auditors noted weaknesses in the Department of Revenue's (Department) internal control over the deposit, allocation, and distribution of receipts from sales and use taxes (Retailers' Occupation Tax or ROT). The auditors also identified weaknesses within the Department's "true-up" calculations and noncompliance with State laws in managing certain local government funds.

The auditors noted the following weakness within the Department's internal control over ROT deposits:

- During fiscal year 2013, the Department deposited approximately \$12.6 billion in ROT receipts into the State Treasury. As cash is collected daily, the Department allocates 98% of receipts to various State and local government funds based upon a biannual estimate. For the remaining 2% of receipts, the Department sets aside these collections (2% reserve) in order to have sufficient funds to "true-up" the various local government funds once the ROT returns are perfected and the correct/final local government allocations are known.

The Department's receipt allocation process is a manual paper process involving data amassed from several sources with complex calculations on multiple spreadsheets. It relies on interaction between various areas within the Department that are responsible for portions of the ROT tax deposit and allocation process. The source data needed for the process is partially obtained by two different divisions within the Department and from records of the Office of the State Comptroller. The structure creates additional risk of error and miscommunication.

As a result of these limitations, the cash receipts and revenue associated with the unperfected returns from the 2% reserve are generally recorded in the State's General Fund. Upon perfecting the returns, cash allocations to other governmental and fiduciary funds will be required and could be material. Further, due to the current cash allocation process limiting the accuracy of each individual fund's cash balance at a point in time, it also limits the State Treasurer's ability to accurately allocate interest due to various local government funds.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department establish and maintain a system, or systems of fiscal and administrative controls to provide assurance "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 current estimation process ensures that each fund is allocated at least as much receipts (percentage wise) as the previous fiscal year actual receipts. Without significant investments into system upgrades, the Department lacks the information and system capabilities to allow for precisely allocating all receipts when they are initially received. Using historical averages and a monthly true-up process is the Department's internal work-around process. Department personnel further indicated the true up of funds is merely a timing issue and is deemed immaterial

The auditors noted noncompliance with the Department's administration of local government ROT funds, as noted below:

- During the testing of distributions from the County Option Motor Fuel Tax Fund (Fund 0190), the auditors noted distributions to county governments were for 98% of current perfected returns processed during the previous month, with the remaining 2% reserved in the fund for the Department's expenditures.

The Counties Code (55 ILCS 5/5-1035.1) requires the Department to distribute 100% of the amount collected from returns processed during the previous month, less the amount expended during the second preceding month pursuant to an appropriation from the General Assembly. The Department is prohibited from expending more than 2% of the receipts deposited into the County Option Motor Fuel Tax Fund during the preceding year in the current year.

Department personnel indicated the GenTax system calculates the allowable 2% Administrative Fee at the time the distributions are disbursed as an automated process for all sales and use taxes. In order to operate in the most efficient and effective manner, the Department follows this standardized process knowing there are minor statutory language differences among some tax statutes, which the Department believes have a de minimis or no impact on allocations.

- During testing of distributions from the Home Rule Municipal Retailers' Occupation Tax Fund (Fund 0138), the auditors noted distributions to municipal governments were not reduced by an administration fee equal to the appropriated expenditures from Fund 0138 during the second preceding month.

The Illinois Municipal Code (65 ILCS 5/8-11-6) requires the Department to distribute 100% of the amount collected from returns processed during the previous month, less the amount expended during the second preceding month pursuant to an appropriation from the General Assembly. The appropriation is limited to 2% of the estimated receipts for the Home Rule Municipal Retailers' Occupation Tax Fund during the fiscal year.

Department personnel noted the GenTax system calculates the allowable 2% Administrative Fee at the time the distributions are disbursed as an automated process for all sales and use taxes; rather than reducing the distributions by the actual expenditure amount from the second preceding month as stated in this statute. In order to operate in the most efficient and effective manner, the Department follows this standardized process knowing there are minor statutory language differences among some tax statutes, which the Department believes have a de minimis or no impact on allocations.

- During the testing of the ROT receipt deposits, the auditors noted the following errors in the allocation of State ROT receipts into various State funds:
 - The Department treated receipts paid into the McCormick Place Expansion Project Fund as a 100% reduction in receipts from the General Revenue Fund, rather than splitting the reduction between the General Revenue Fund and Special Account for the Common School Fund. As a result, the Department should have deposited an additional \$9.2 million into the General Revenue Fund, with a corresponding reduction in receipts for the Special Account for the Common School Fund.
 - The Department does not have a system in place to split remaining receipts from the Use Tax Act and Retailers' Occupation Tax Act and receipts from the Service Use Tax Act and Service Occupation Tax Act. As a result, the Department is unable to properly allocate receipts between the General Revenue Fund and Special Account for the Common School Fund.

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 the Retailers' Occupation Tax Act (35 ILCS 120/3) require the Department allocate State ROT receipts pursuant to the following methodology:

- Net Revenues Realized from State Sales Tax Collections
 - 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 Receipts 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 \$153 million, to the McCormick Place Expansion Project Fund
- For Receipts Remaining after the Previous Allocations
 - For Receipts 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 Receipts from the Service Use Tax Act and Service Occupation Tax Act
 - 100% to the General Revenue Fund

In response to this finding from the prior audit, the Department stated it did not have an electronic receipt processing system that could automatically calculate and allocate deposits to funds upon initial receipt for all form types collected for 73 different taxes using over 100 different calculations for fund splits into 94 different funds. As a result, until the State can invest in a general ledger and receipt processing system, the Department has developed and relies on a manual deposit estimation and true up process that accounts for the necessary fund allocations and deposits after the returns are processed and perfected. Department personnel stated they would continue to research the feasibility and cost/benefit of further enhancements to GenTax, a rewrite of the current Consolidated Accounting System, and development of a general ledger system for reconciling detail return information with deposit information.

Specific to the exceptions noted in the current audit, Department personnel stated receipts from Retailers' Occupation and Use Tax and Service Occupation and Use Tax receipts are collected from taxpayers on the same tax form and the same line. The Department does not have information sufficient to deposit Retailers' Occupation and Use Tax and Service Occupation and Use Tax separately from ROT or Use Tax. The Department has deposited these taxes in this manner since Sales Tax reform in 1990.

In August 2013 the Service Use Tax Act and Service Occupation Tax Act was changed to be consistent with the Use Tax Act and the Retailers' Occupation Tax Act to deposit the remaining receipts after the previous allocations General Revenue Fund and the Common School Fund.

Failure to exercise adequate control over the deposit and allocation of receipts from sales and use taxes is noncompliance with State law, resulted in deposit errors in the State Treasury, and reduces the reliability of Statewide information. (Finding Code No. 2013-006, 12-07, 11-10)

RECOMMENDATION:

We recommend the Department implement controls to ensure the deposit, allocation, and distribution of receipts from sales and use taxes are performed in accordance with State law or seek modification to statutory language as needed.

DEPARTMENT RESPONSE:

We agree with the recommendation. Using historical averages and the monthly true-up process described in this finding is the best available means to allocate receipts until returns are perfected. It is important to note that this longstanding methodology has resulted in accurate distributions to local governments as returns are perfected and the needed cash being available in all funds to support these distributions. The Department is planning enhancements to GenTax, which include rewriting the Consolidated Accounting System and developing a general ledger system for reconciling detail return information with deposit information.

In order to operate in the most efficient and effective manner, the Department follows a standardized systemic process in GenTax to calculate administrative fees. We recognize there are minor language differences among some tax statutes; however the Department believes the differences in the calculations have a de minimis or no impact on allocations. The Department is proposing a legislative change that will codify the longstanding systemic process we have performed for the County Option Motor Fuel Tax Fund and the Home Rule Municipal Retailers' Occupation Tax Fund. As stated in the finding, legislation was changed in August 2013 to correct the issues noted with the General Revenue Fund and the Common School Fund.

STATE OF ILLINOIS
DEPARTMENT OF REVENUE
PRIOR YEAR FINDINGS NOT REPEATED
For the Year Ended June 30, 2013

A. Prior Finding (Weaknesses in the processes over Sales and Use Tax Fund allocations)

The prior audit noted weaknesses in the Department's controls over the fund allocation process for sales and use taxes (ROT).

During the current audit, auditors noted the Department evaluated the current process regarding the fund allocations as recommended in the prior finding. The Department determined the current process provides a reasonably effective process for meeting statutory deposit requirements with the funds given the limitations of the systems in place. However, certain aspects of the prior finding are incorporated into the current finding 2013-006. (Finding Code No. 12-04, 11-05, 10-08)

B. Prior Finding (Year-end cash balances not properly recorded)

The prior audit noted the Department misstated cash during the year-end reporting process.

During the current audit, auditors noted the Department allocated amounts to the GAAP reporting balances that agreed to the bank reconciliations within an immaterial amount and recorded cash from the remittance clearing accounts. As a result, the prior finding is not repeated. (Finding Code No. 12-08, 11-11)

C. Prior Finding (Lost taxpayer audit files)

The prior audit noted the Department did not have a detailed process to follow up on lost files and failed to timely disclose information related to the lost files to the auditors.

During the current audit, auditors noted the Department had developed policies and procedures in accordance with the prior finding recommendation and the Department indicated there had not been any instances of lost taxpayer files during the engagement period. As a result, the prior finding is not repeated. (Finding Code No. 12-09)