

**STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES**

**FINANCIAL AUDIT
For the Year Ended June 30, 2010**

STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES
FINANCIAL AUDIT
For the Year Ended June 30, 2010

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STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES
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STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES
FINANCIAL STATEMENT AUDIT
For the Year Ended June 30, 2010

AGENCY OFFICIALS

Director	Barry S. Maram (7/1/09 – 4/15/10) Julie Hamos (4/16/10 – Current)
Assistant Director	Sharron Matthews
Deputy Directors	
Community Outreach	Peter F. Vina
Administrative Operations	Ian Doughty (12/16/09 – 04/19/10)
Human Resources	Richard Foxman
Policy	Laura Zaremba (7/1/09 – 5/14/10)
General Counsel	Jeanette Badrov
Inspector General	John C. Allen
State Purchasing Officer	Tom Sestak (Acting)
Chief Administrative Officer	Tamara Hoffman (7/1/09 – 11/20/09) Carolyn Williams Meza (1/25/10 – Current)
Administrators	
Division of Child Support Enforcement	Pamela Lowry
Division of Finance	Michael Moss
Division of Medical Programs	Theresa Eagleson
Division of Personnel and Administrative Services	Theresa Bietsch
Chiefs	
Office of Legislative Affairs	Emily Coultas
Office of Fiscal Management	Jack Dodds
Office of Healthcare Purchasing	Pat Frueh (Acting)
Office of Information Services	Ivan Handler

Department of Healthcare and Family Services offices are located at:

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Springfield, IL 62763

2200 Churchill Road
Springfield, IL 62702

STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES
FINANCIAL AUDIT
For the Year Ended June 30, 2010

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying financial statements of the Illinois Department of Healthcare and Family Services was performed by the Office of the Auditor General.

Based on their audit, the auditors expressed unqualified opinions on the Department's financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information.

SUMMARY OF FINDINGS

The auditors identified matters involving the Department's internal control over financial reporting that they considered to be significant deficiencies. The significant deficiencies are described in the accompanying Schedule of Findings on pages 56-60 of this report, as finding 10-1 (Financial statement preparation) and finding 10-2 (Lack of written rate-setting methodology). The auditors also consider finding 10-1 to be a material weakness.

EXIT CONFERENCE

The financial audit findings and recommendations appearing in this report were discussed with Department personnel at an exit conference on April 12, 2011.

The responses to the recommendations were provided by Julie Hamos, Director, on April 20, 2011.

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OFFICE OF THE AUDITOR GENERAL
WILLIAM G. HOLLAND

INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland
Auditor General
State of Illinois

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 2, the financial statements of the State of Illinois, Department of Healthcare and Family Services are intended to present the financial position and the changes in financial position and, where applicable, cash flows of only that portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the State of Illinois, Department of Healthcare and Family Services. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2010, and its changes in its financial position including cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of Illinois, Department of Healthcare and Family Services, as of June 30, 2010, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 20, 2011 on our consideration of the State of Illinois, Department of Healthcare and Family Services' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Defined Benefit Other Postemployment Benefit Plans – Schedule of Funding Progress on page 39 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

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



Bruce L. Bullard, CPA

Director of Financial and Compliance Audits

April 20, 2011

State of Illinois
Department of Healthcare and Family Services

Statement of Net Assets

June 30, 2010 (Expressed in Thousands)

	Governmental Activities	Business-type Activities	Total
ASSETS			
Unexpended appropriations	\$ 993,686	\$ -	\$ 993,686
Cash equity with State Treasurer	429,385	2,031	431,416
Cash and cash equivalents	31,361	1,628	32,989
Securities lending collateral equity with State Treasurer	154,156	1,033	155,189
Due from other government - federal	1,625,807	34	1,625,841
Due from other government - local	40,111	66	40,177
Taxes receivable, net	5,065	-	5,065
Other receivables, net	103,436	337	103,773
Internal balances	5	(5)	-
Due from other State fiduciary funds	95	-	95
Due from other Department fiduciary funds	13	-	13
Due from other State funds	326,971	-	326,971
Due from State of Illinois component units	25,355	-	25,355
Prepaid expenses	7,288	-	7,288
Capital assets being depreciated, net	1,715	-	1,715
Total assets	3,744,449	5,124	3,749,573
LIABILITIES			
Accounts payable and accrued liabilities	2,822,977	3,496	2,826,473
Due to other government - federal	7,392	2	7,394
Due to other government - local	183,001	-	183,001
Due to other State fiduciary funds	852	-	852
Due to other State funds	24,335	34	24,369
Due to State of Illinois component units	89,926	-	89,926
Unearned revenue	-	94	94
Obligations under securities lending of State Treasurer	154,156	1,033	155,189
Long term obligations:			
Due within one year	844	-	844
Due subsequent to one year	3,891,079	74	3,891,153
Total liabilities	7,174,562	4,733	7,179,295
NET ASSETS			
Invested in capital assets	1,715	-	1,715
Restricted for health and social services	560	-	560
Unrestricted	(3,432,388)	391	(3,431,997)
Total net assets	\$ (3,430,113)	\$ 391	\$ (3,429,722)

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

State of Illinois
Department of Healthcare and Family Services

Statement of Activities

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

Functions/Programs	Program Revenues			Net (Expense) Revenues and Changes in Net Assets		
	Expenses	Operating Grants and Contributions	Charges for Services	Governmental Activities	Business-type Activities	Total
Primary government						
Governmental activities						
Health and social services	\$ 15,558,621	\$ 9,675,307	\$ 1,990,269	\$ (3,893,045)		\$ (3,893,045)
Education	964,027	-	-	(964,027)		(964,027)
Employment and economic development	56,487	-	-	(56,487)		(56,487)
General government	255,936	-	-	(255,936)		(255,936)
Transportation	247,805	-	-	(247,805)		(247,805)
Public protection and justice	631,937	-	-	(631,937)		(631,937)
Environment and business regulation	73,141	-	-	(73,141)		(73,141)
Total governmental activities	17,787,954	9,675,307	1,990,269	(6,122,378)		(6,122,378)
Business-type activities						
Insurance program	57,597	-	53,027		(4,570)	(4,570)
Total business-type activities	57,597	-	53,027		(4,570)	(4,570)
Total primary government	\$ 17,845,551	\$ 9,675,307	\$ 2,043,296			(6,126,948)
General revenues						
Appropriations from State resources				8,765,729	-	8,765,729
Lapsed appropriations				(765,297)	-	(765,297)
Receipts collected and transmitted to State Treasury				(4,902,803)	-	(4,902,803)
Other taxes				1,121,786	-	1,121,786
Interest and investment income				2,018	33	2,051
Premiums on general bonds issued				3,903	-	3,903
General bonds issued				246,095	-	246,095
Other revenues				282,775	156	282,931
Capital transfers to other State agencies				(13)	-	(13)
Amount of SAMS transfers-in				(126,527)	-	(126,527)
Amount of SAMS transfers-out				30,000	-	30,000
Transfers-in				26,843	-	26,843
Transfers-out				(27,817)	-	(27,817)
Total general revenues and transfers				4,656,692	189	4,656,881
Change in net assets				(1,465,686)	(4,381)	(1,470,067)
Net assets July 1, 2009, as restated				(1,964,427)	4,772	(1,959,655)
Net assets June 30, 2010				\$ (3,430,113)	\$ 391	\$ (3,429,722)

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

State of Illinois
Department of Healthcare and Family Services

Governmental Funds Balance Sheet

June 30, 2010 (Expressed in Thousands)

	<u>General Fund</u>	<u>Road Fund</u>	<u>Other Nonmajor Funds</u>	<u>Total</u>
ASSETS				
Unexpended appropriations	\$ 993,201	\$ -	\$ 485	\$ 993,686
Cash equity with State Treasurer	336,296	-	57,406	393,702
Cash and cash equivalents	197	-	-	197
Securities lending collateral equity with State Treasurer	133,957	-	102	134,059
Due from other government - federal	1,600,305	-	15,455	1,615,760
Due from other government - local	40,111	-	-	40,111
Taxes receivable, net	5,065	-	-	5,065
Other receivables, net	67,607	-	9,951	77,558
Due from other Department funds	-	-	13,944	13,944
Due from other State funds	17,534	-	-	17,534
Total assets	<u>\$ 3,194,273</u>	<u>\$ -</u>	<u>\$ 97,343</u>	<u>\$ 3,291,616</u>
LIABILITIES				
Accounts payable and accrued liabilities	\$ 1,802,837	\$ -	\$ 11,402	\$ 1,814,239
Due to other government - federal	823	-	6,560	7,383
Due to other government - local	174,284	-	8,717	183,001
Due to other State fiduciary funds	113	-	699	812
Due to other Department funds	557,537	28,217	611	586,365
Due to other State funds	14,315	-	9,208	23,523
Due to State of Illinois component units	89,215	-	711	89,926
Unavailable revenues	616,250	-	4,649	620,899
Obligations under securities lending of State Treasurer	133,957	-	102	134,059
Total liabilities	<u>3,389,331</u>	<u>28,217</u>	<u>42,659</u>	<u>3,460,207</u>
FUND BALANCES (DEFICITS)				
Reserved for encumbrances	1	-	-	1
Unreserved:				
General fund	(195,059)	-	-	(195,059)
Special revenue funds	-	(28,217)	54,684	26,467
Total fund balances (deficits)	<u>(195,058)</u>	<u>(28,217)</u>	<u>54,684</u>	<u>(168,591)</u>
Total liabilities and fund balances	<u>\$ 3,194,273</u>	<u>\$ -</u>	<u>\$ 97,343</u>	<u>\$ 3,291,616</u>

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

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

Total fund balances-governmental funds \$ (168,591)

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

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the funds. 1,701

Prepaid expenses for governmental activities are current uses
of financial resources for funds. 7,288

Revenues in the Statement of Activities that do not provide
current financial resources are deferred in the funds. 620,899

Some liabilities reported in the Statement of Net Assets do not
require the use of current financial resources and therefore are
not reported as liabilities in governmental funds. These
liabilities consist of:

Compensated absences	\$ (12,618)	
Net other postemployment benefit obligations	<u>(3,878,792)</u>	<u>(3,891,410)</u>

Net assets of governmental activities \$ (3,430,113)

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

State of Illinois

Department of Healthcare and Family Services

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

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

	General Fund	Road Fund	Other Nonmajor Funds	Total
REVENUES				
Operating grants - federal	\$ 8,705,864	\$ -	\$ 479,580	\$ 9,185,444
Other operating grants	695,216	-	-	695,216
Licenses and fees	18,646	-	1,136	19,782
Other charges for services	-	-	16,814	16,814
Interest and other investment income	1,568	-	2	1,570
Other taxes	1,120,475	-	-	1,120,475
Other	245,068	-	43	245,111
Total revenues	<u>10,786,837</u>	<u>-</u>	<u>497,575</u>	<u>11,284,412</u>
EXPENDITURES				
Health and social services	12,519,458	-	788,501	13,307,959
Education	394,093	-	-	394,093
Employment and economic development	15,169	-	-	15,169
General government	130,031	-	-	130,031
Transportation	3,300	152,398	-	155,698
Public protection and justice	366,822	-	-	366,822
Environment and business regulation	21,197	-	-	21,197
Capital outlays	7	-	-	7
Total expenditures	<u>13,450,077</u>	<u>152,398</u>	<u>788,501</u>	<u>14,390,976</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,663,240)</u>	<u>(152,398)</u>	<u>(290,926)</u>	<u>(3,106,564)</u>
OTHER SOURCES (USES) OF FINANCIAL RESOURCES				
Appropriations from State resources	7,872,450	150,179	743,100	8,765,729
Lapsed appropriations	(642,223)	-	(123,074)	(765,297)
Receipts collected and transmitted to State Treasury	(4,533,381)	-	(369,422)	(4,902,803)
Premiums on general obligation bonds issued	3,903	-	-	3,903
General obligation bonds issued	246,095	-	-	246,095
Amount of SAMS transfers-in	(126,527)	-	-	(126,527)
Amount of SAMS transfers-out	30,000	-	-	30,000
Transfers-in	39,643	-	42,931	82,574
Transfers-out	(70,548)	-	(13,000)	(83,548)
Net other sources (uses) of financial resources	<u>2,819,412</u>	<u>150,179</u>	<u>280,535</u>	<u>3,250,126</u>
Net change in fund balances	156,172	(2,219)	(10,391)	143,562
Fund balances (deficits), July 1, 2009, as restated	(351,230)	(25,998)	65,075	(312,153)
FUND BALANCES (DEFICITS), JUNE 30, 2010	<u>\$ (195,058)</u>	<u>\$ (28,217)</u>	<u>\$ 54,684</u>	<u>\$ (168,591)</u>

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

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

Net change in fund balances	\$	143,562
<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 expense to allocate those expenditures over the life of the assets. This is the amount by which depreciation in the current period exceeded capital outlays.</p>		(737)
<p>Prepaid expenses in the Statement of Activities are not reported as expenses in governmental funds. This amount represents the decrease in prepaid expenses over the prior year.</p>		843
<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>		(204,457)
<p>Some capital assets were transferred out to other State agencies and, therefore, no proceeds were received for the capital asset's value.</p>		(13)
<p>Loss from disposal of capital assets. This is the book value of capital assets, which were disposed of.</p>		(13)
<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. Below are such activities.</p>		
Increase in compensated absences obligation	\$ (333)	
Increase in net other postemployment benefit obligations	(1,404,538)	(1,404,871)
Change in net assets of governmental activities		<u><u>\$ (1,465,686)</u></u>

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

State of Illinois

Department of Healthcare and Family Services

Statement of Net Assets -

Proprietary Funds

June 30, 2010 (Expressed in Thousands)

	Business-Type Activities - Nonmajor Enterprise Fund	Governmental Activities - Internal Service Fund
	Local Government Health Insurance Reserve Fund	Health Insurance Reserve Fund
ASSETS		
Cash equity with State Treasurer	\$ 2,031	\$ 35,683
Cash and cash equivalents	1,628	31,164
Securities lending collateral equity with State Treasurer	1,033	20,097
Due from other government - federal	34	10,047
Due from other government - local	66	-
Other receivables, net	337	25,878
Due from other State fiduciary funds	-	95
Due from other Department fiduciary funds	-	13
Due from other Department funds	-	572,426
Due from other State funds	-	309,437
Due from State of Illinois component units	-	25,355
Total current assets	5,129	1,030,195
Capital assets being depreciated, net	-	14
Total assets	5,129	1,030,209
LIABILITIES		
Accounts payable and accrued liabilities	3,496	1,008,738
Due to other government - federal	2	9
Due to other State fiduciary funds	-	40
Due to other Department funds	5	-
Due to other State funds	34	812
Unearned Revenue	94	-
Obligations under securities lending of State Treasurer	1,033	20,097
Current portion of long-term obligations	-	140
Total current liabilities	4,664	1,029,836
Noncurrent portion of long-term obligations	74	373
Total liabilities	4,738	1,030,209
NET ASSETS		
Invested in capital assets	-	14
Unrestricted	391	(14)
Total net assets	\$ 391	\$ -

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

State of Illinois

Department of Healthcare and Family Services

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

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

	Business-Type Activities - Nonmajor Enterprise Fund	Governmental Activities - Internal Service Fund
	Local Government Health Insurance Reserve Fund	Health Insurance Reserve Fund
OPERATING REVENUES		
Charges for sales and services	\$ 53,027	\$ 1,986,540
Total operating revenues	53,027	1,986,540
OPERATING EXPENSES		
Benefit payments and refunds	55,663	1,917,069
Interest expense	-	38,535
General and administrative	1,931	69,239
Depreciation	3	9
Total operating expenses	57,597	2,024,852
Operating income (loss)	(4,570)	(38,312)
NONOPERATING REVENUES (EXPENSES)		
Interest and investment income	33	448
Other revenues	156	37,864
Changes in net assets	(4,381)	-
Net assets, July 1, 2009	4,772	-
NET ASSETS, JUNE 30, 2010	\$ 391	\$ -

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

State of Illinois

Department of Healthcare and Family Services

Statement of Cash Flows -

Proprietary Funds

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

	Business-Type Activities - Nonmajor Enterprise Fund	Governmental Activities - Internal Service Fund
	Local Government Health Insurance Reserve Fund	Health Insurance Reserve Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from sales and services	\$ 53,171	\$ 123,494
Cash received from transactions with other funds	-	1,462,849
Cash payments to suppliers for goods and services	(57,155)	(1,637,123)
Cash payments to employees for services	(1,006)	(4,395)
Cash receipts from other operating activities	694	44,442
Net cash provided (used) by operating activities	<u>(4,296)</u>	<u>(10,733)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating grants received	162	37,852
Net cash provided (used) by noncapital financing activities	<u>162</u>	<u>37,852</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	-	(17)
Net cash (used) by capital and related financing activities	<u>-</u>	<u>(17)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends on investments	35	444
Net cash provided (used) by investing activities	<u>35</u>	<u>444</u>
Net increase (decrease) in cash and cash equivalents	(4,099)	27,546
Cash and cash equivalents, July 1, 2009	<u>7,758</u>	<u>39,301</u>
CASH AND CASH EQUIVALENTS, JUNE 30, 2010	<u>\$ 3,659</u>	<u>\$ 66,847</u>
Reconciliation of cash and cash equivalents to the Statement of Net Assets:		
Total cash and cash equivalents per the Statement of Net Assets	\$ 1,628	\$ 31,164
Add: cash equity with State Treasurer	2,031	35,683
CASH AND CASH EQUIVALENTS, JUNE 30, 2010	<u>\$ 3,659</u>	<u>\$ 66,847</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
OPERATING INCOME (LOSS)	<u>\$ (4,570)</u>	<u>\$ (38,312)</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	3	9
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(159)	(17,087)
(Increase) decrease in intergovernmental receivables	102	-
(Increase) decrease in due from other funds	-	(390,781)
(Increase) decrease in due from State of Illinois component units	-	(9,410)
Increase (decrease) in accounts payable and accrued liabilities	294	448,987
Increase (decrease) in intergovernmental payables	-	(1)
Increase (decrease) in due to other funds	4	715
Increase (decrease) in deferred revenues	43	7
Increase (decrease) in other liabilities	(13)	(4,860)
Total adjustments	<u>274</u>	<u>27,579</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ (4,296)</u>	<u>\$ (10,733)</u>

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

State of Illinois
Department of Healthcare and Family Services

Statement of Fiduciary Net Assets

June 30, 2010 (Expressed in Thousands)

	Pension (and Other Employee Benefit) Trust Funds	Agency Funds
	<u> </u>	<u> </u>
ASSETS		
Cash equity with State Treasurer	\$ 49,229	\$ 15,683
Cash and cash equivalents	8,057	1,194
Securities lending collateral	15,810	-
Receivables, net:		
Federal government	6,884	-
Employee	4,869	-
Employer	3,698	-
Interest and investment income	33	-
Other	11,296	216,587
Due from other State funds	-	1
Total assets	<u>99,876</u>	<u>\$ 233,465</u>
LIABILITIES		
Accounts payable and accrued liabilities	51,246	20,033
Intergovernmental payables	4	-
Due to other State fiduciary funds	13	-
Due to other Department funds	13	-
Due to other State funds	151	-
Securities lending transactions	15,810	-
Other liabilities	-	213,432
Long term obligations:		
Due subsequent to one year	104	-
Total liabilities	<u>67,341</u>	<u>\$ 233,465</u>
NET ASSETS HELD IN TRUST FOR PENSION AND OTHER EMPLOYEE BENEFITS	<u>\$ 32,535</u>	

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

State of Illinois

Department of Healthcare and Family Services

Statement of Changes in Fiduciary Net Assets -

Fiduciary Funds

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

	Pension (and Other Employee Benefit) Trust Funds
<hr/>	
ADDITIONS	
Contributions:	
Employer	\$ 71,672
State	83,066
Plan members:	
Active	94,209
Retiree	163,561
Terminated employees	98
Federal Medicare Part D	26,164
Total contributions	<u>438,770</u>
Investment Income:	
Interest and other investment income	<u>336</u>
Net investment income	<u>336</u>
Total additions	<u>439,106</u>
DEDUCTIONS	
Benefit payments and refunds	459,588
General and administration	<u>3,032</u>
Total deductions	<u>462,620</u>
Net additions (deductions)	(23,514)
Net assets held in trust for pension and other employee benefits, July 1, 2009	<u>56,049</u>
NET ASSETS HELD IN TRUST FOR PENSION AND OTHER EMPLOYEE BENEFITS, June 30, 2010	<u>\$ 32,535</u>

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

STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES

Notes to the Financial Statements

June 30, 2010

(1) Organization

The Department of Healthcare and Family Services (the Department) is a part of the executive branch of government of the State of Illinois (State) and operates under the authority of and review by the Illinois General Assembly. The Department operates under a budget approved by the General Assembly in which resources primarily from the State's 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 various locally-held portions of health insurance funds and the Child Support Enforcement Trust Fund – SDU.

The Department is organized to provide for the improvement of the lives of Illinois' families through healthcare coverage, child support enforcement and employees of the State of Illinois and other local governments and schools through group insurance plan administration.

(2) Summary of Significant Accounting Policies

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

(a) Financial Reporting Entity

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

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

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

(b) Basis of Presentation

The financial statements of the State of Illinois, Department of Healthcare and Family Services, are intended to present the financial position, the changes in financial position, and the cash flows of only that portion of the governmental and business-type activities, by each major 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

STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES

Notes to the Financial Statements

June 30, 2010

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

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

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

The statement of activities presents a comparison between direct expenses and program revenues for the business-type activity of the Department and for the functions of the Department's governmental activities. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

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

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

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

General – This is the State's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The services which are administered by the Department and accounted for in the General Fund include, among others, promoting access to quality healthcare and child support. Certain resources obtained from federal grants and used to support general governmental activities are accounted for in the General Fund consistent with applicable legal requirements. The Department's portion of the General Fund is composed of seven primary sub-accounts (General Revenue, U of I Hospital Services, County Hospital Services, Long-Term Care Provider, Hospital Provider, Drug Rebate and Hospital Provider Relief) and eleven secondary sub-accounts.

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

STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES

Notes to the Financial Statements

June 30, 2010

Additionally, the Department reports the following fund types:

Governmental Fund Types:

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

Proprietary Fund Types:

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

Internal Service – This fund accounts for medical and dental benefits for State employees provided to agencies of the State on a reimbursement basis.

Fiduciary Fund Types:

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

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

(c) Measurement Focus and Basis of Accounting

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. Non-exchange transactions, in which the Department gives (or receives) value without directly receiving (or giving) equal value in exchange, include nursing home assessments, hospital assessments and intergovernmental grants. On an accrual basis, revenues from the nursing home assessments 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 collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However, principal and interest on formal debt issues, claims and judgments, and compensated absences are recorded only when the 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 the nursing home assessment, federal matching revenues, drug rebates, intergovernmental transfer agreement revenues, insurance

STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES

Notes to the Financial Statements

June 30, 2010

charges, and child support. Other miscellaneous revenue sources are considered to be measurable and available only when cash is received.

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

(d) Shared Fund Presentation

The financial statement presentation for the General Revenue, Care Provider Fund for Persons with Developmental Disabilities, and Trauma Center Accounts of the General Fund, the Road Fund, the Department of Corrections Reimbursement Fund, the Supplemental Low-Income Energy Assistance Fund and the Tobacco Settlement Recovery Fund, nonmajor governmental funds, 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

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

Lapsed Appropriations

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

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.

STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES

Notes to the Financial Statements

June 30, 2010

Amount of SAMS Transfers-Out

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

(e) Eliminations

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

(f) Cash and Cash Equivalents

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

(g) Investments

Investments are reported at fair value.

(h) Interfund Transactions and Transactions with State of Illinois Component Units

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 and the proprietary and government-wide statement of net assets.

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

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

The Department also has activity with the University of Illinois, a State of Illinois component unit, for medical programs and intergovernmental transfer agreements administered by the University and with various component units of the State of Illinois for on-behalf employee benefits paid.

**STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES**

Notes to the Financial Statements

June 30, 2010

(i) Capital Assets

Capital assets, which includes property, plant, and equipment, are reported at cost or estimated historical cost based on appraisals. Contributed assets are reported at estimated fair value at the time received. Capital assets are depreciated using the straight-line method.

Capitalization thresholds and the estimated useful lives are as follows:

Capital Asset Category	Capitalization Threshold	Estimated Useful Life (in Years)
Equipment	\$5,000	3-10 years

(j) Compensated Absences

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

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

(k) Fund Balances

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are legally restricted to a specific future use or that are not available for appropriation or expenditure. Designations of fund balances represent tentative State plans that are subject to change.

(l) Net Assets

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

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

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

STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES

Notes to the Financial Statements

June 30, 2010

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

(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) Health Benefits Claims Processing

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

(o) New Accounting Pronouncements

Effective for the year ending June 30, 2010, the Department adopted GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which establishes guidance for recognition and amortization of intangible assets in the financial statement of governments.

(p) Future Adoption of GASB Statements

Effective for the year ending June 30, 2011, the Department will adopt GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which establishes five classifications for fund balances, establishing a hierarchy that is based on the extent to which spending constraints restrict how a government can use the funds. The Department has not yet determined the impact on the Department’s financial statements as a result of adopting this statement.

(3) Deposits and Investments

(a) Deposits

The State Treasurer is the custodian of the State’s cash and cash equivalents for funds maintained in the State Treasury. Deposits in the custody of the State Treasurer are pooled and invested with other State funds in accordance with the 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 are available within the State of Illinois’ Comprehensive Annual Financial Report.

Cash on deposit for locally held funds of governmental activities, business-type activities, and fiduciary activities had carrying amounts and bank balances of \$1,099 thousand, \$108 thousand, and \$42 thousand, respectively, at June 30, 2010.

**STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES**

Notes to the Financial Statements

June 30, 2010

(b) Investments

Section 2 of the Public Funds Investment Act limits the State's investments outside the State Treasury to securities of the U.S. government or its agencies, short-term obligations of domestic corporations exceeding \$500 million in assets that are rated in the three highest categories by at least two nationally recognized statistical ratings organizations not to exceed ten percent of the domestic corporations outstanding obligations, money market mutual funds invested in the U.S. government and/or its agencies, and repurchase agreements securities of the U.S. government or its agencies or money market mutual funds invested in the U.S. government or its agencies. Investments of public funds in a Public Treasurers' Investment Pool created under Section 17 of the State Treasurer Act are also permitted.

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

	Fair Value (Thousands)	Weighted Average Maturity (Years)
<i>Governmental and Business-Type Activities</i>		
Illinois Public Treasurer's Investment Pool	\$ 31,782	0.078
Total fixed income investments	\$ 31,782	
<i>Fiduciary Funds</i>		
Repurchase agreements	\$ 11,784	0.003
Illinois Public Treasurer's Investment Pool	8,015	0.078
Total fixed income investments	\$ 19,799	

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

Credit Risk: The Department does not have a formal investment policy that limits investment choices. The Illinois Public Treasurers' Investment Pool was rated AAAM by Standard & Poor's.

**STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES**

Notes to the Financial Statements

June 30, 2010

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

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

<i>Governmental and Business-Type Activities</i>	<u>Deposits</u>	<u>Investments</u>
Amounts Per Note	\$ 1,207	\$ 31,782
Cash Equivalents	31,782	(31,782)
Amounts Per Statement of Net Assets	<u>\$ 32,989</u>	<u>\$ -</u>
<i>Fiduciary Funds</i>	<u>Deposits</u>	<u>Investments</u>
Amounts Per Note	\$ 42	\$ 19,799
Cash equivalents	19,799	(19,799)
Outstanding checks	(10,590)	-
Amounts Per Statement of Fiduciary Net Assets	<u>\$ 9,251</u>	<u>\$ -</u>

(4) Accounts Receivable

(a) Taxes Receivable

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

	<u>General Fund</u>
Taxes receivable	\$ 8,306
Less: allowance for uncollectible taxes	(3,241)
Taxes receivable, net	<u>\$ 5,065</u>

(b) Other Receivables

Other receivables (amounts expressed in thousands) at June 30, 2010 are as follows:

	<u>General Fund</u>	<u>Non major Governmental Funds</u>	<u>Non major Proprietary Fund</u>	<u>Internal Service Fund</u>	<u>Fiduciary Funds</u>
Other receivables	\$ 120,598	\$ 673,948	\$ 337	\$ 25,878	\$ 3,548,745
Less: allowance for uncollectible accounts	(52,991)	(663,997)	-	-	(3,320,862)
Other receivables, net	<u>\$ 67,607</u>	<u>\$ 9,951</u>	<u>\$ 337</u>	<u>\$ 25,878</u>	<u>\$ 227,883</u>

**STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES**

Notes to the Financial Statements

June 30, 2010

(5) Interfund Balances and Activity

(a) Balances due to/from Other Funds

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

Due from					
Fund	Other Department Funds	Other State Funds	Other Department Fiduciary Funds	Other State Fiduciary Funds	Description/Purpose
General	\$ -	\$ 17,534	\$ -	\$ -	Due from other State funds for subgrants received.
Nonmajor governmental funds	13,944	-	-	-	Due from other State funds for unexpended subgrants made.
Internal service funds	572,426	309,437	13	95	Due from other funds for insurance benefits.
Fiduciary funds	-	1	-	-	
	\$ 586,370	\$ 326,972	\$ 13	\$ 95	

The following balances (amounts expressed in thousands) at June 30, 2010 represent amounts due to the Department's internal service fund for insurance benefits, to other State of Illinois funds for purchases of services, and to pension (and other employee benefit) trust funds for post-employment benefits.

Due to			
Fund	Other Department Funds	Other State Funds	Other State Fiduciary Funds
General	\$ 557,537	\$ 14,315	\$ 113
Road fund	28,217	-	-
Nonmajor governmental funds	611	9,208	699
Nonmajor proprietary fund	5	34	-
Internal service fund	-	812	40
Fiduciary funds	13	151	13
	\$ 586,383	\$ 24,520	\$ 865

**STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES**

Notes to the Financial Statements

June 30, 2010

(b) Transfers to/from Other Funds

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

Fund	Transfers in from		Description/Purpose
	Other Department Funds	Other State Funds	
General	\$ 12,800	\$ 26,843	Transfers from the Tobacco Settlement Fund.
Nonmajor governmental funds	42,931	-	Transfer from General Fund per State appropriation.
	<u>\$ 55,731</u>	<u>\$ 26,843</u>	

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

Fund	Transfers out to		Description/Purpose
	Other Department Funds	Other State Funds	
General	\$ 42,931	\$ 27,617	Transfer to Department nonmajor governmental funds per State Appropriation.
Nonmajor governmental funds	12,800	200	Transfer to General Fund for Medicaid programs.
	<u>\$ 55,731</u>	<u>\$ 27,817</u>	

STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES

Notes to the Financial Statements

June 30, 2010

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

The following balances (amounts expressed in thousands) at June 30, 2010 represent amounts due from State of Illinois Component Units to the General Fund for intergovernmental agreement reimbursements and to the internal service fund for health insurance charges.

Fund	Due from Internal Service Fund
East St. Louis Finance Advisory Authority	\$ 6
Toll Highway Authority	2,296
Chicago State University	57
Governors State University	53
Northeastern Illinois University	1,149
Western Illinois University	843
Illinois State University	1,677
Northern Illinois University	2,648
Southern Illinois University	128
University of Illinois	16,498
	<u>\$ 25,355</u>

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

Fund	Due to	
	General Fund	Nonmajor Governmental Funds
Northern Illinois University	\$ 51	
University of Illinois	89,164	\$ 711
	<u>\$ 89,215</u>	<u>\$ 711</u>

**STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES**

Notes to the Financial Statements

June 30, 2010

(6) Capital Assets

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

	<u>Balance July 1, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Net Transfers</u>	<u>Balance June 30, 2010</u>
Governmental Activities:					
Capital assets being depreciated: Equipment	\$ 8,728	\$ 24	\$ 68	\$ (765)	\$ 7,919
Less accumulated depreciation: Equipment	<u>6,258</u>	<u>753</u>	<u>55</u>	<u>(752)</u>	<u>6,204</u>
Total capital assets being depreciated, net	<u>2,470</u>	<u>(729)</u>	<u>13</u>	<u>(13)</u>	<u>1,715</u>
Governmental activity capital assets, net	<u>\$ 2,470</u>	<u>\$ (729)</u>	<u>\$ 13</u>	<u>\$ (13)</u>	<u>\$ 1,715</u>

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

Health and social services \$ 753

	<u>Balance July 1, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Net Transfers</u>	<u>Balance June 30, 2010</u>
Business-type Activities:					
Capital assets being depreciated: Equipment	\$ 9	\$ -	\$ -	\$ -	\$ 9
Less accumulated depreciation: Equipment	<u>6</u>	<u>3</u>	<u>-</u>	<u>-</u>	<u>9</u>
Business-type activity capital assets, net	<u>\$ 3</u>	<u>\$ (3)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES

Notes to the Financial Statements

June 30, 2010

(7) Long-Term Obligations

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

	Balance			Balance	
	July 1,			June 30,	
	2009	Additions	Deletions	2010	Amounts
					Due Within
					One Year
Governmental activities:					
Compensated Absences	\$ 12,659	\$ 11,879	\$ 11,539	\$ 12,999	\$ 712
Worker's Compensation	4,992	9,992	14,852	132	132
Net other postemployment benefit obligations	2,474,254	1,404,538	-	3,878,792	-
Total governmental activities	\$ 2,491,905	\$ 1,426,409	\$ 26,391	\$ 3,891,923	\$ 844
Business-type activities:					
Compensated Absences	\$ 87	\$ 58	\$ 71	\$ 74	\$ -
Total business-type activities	\$ 87	\$ 58	\$ 71	\$ 74	\$ -
Fiduciary funds:					
Compensated Absences	\$ 85	\$ 79	\$ 60	\$ 104	\$ -
Total fiduciary funds	\$ 85	\$ 79	\$ 60	\$ 104	\$ -

Compensated absences have been liquidated by the applicable governmental funds that account for the salaries and wages of the related employees. Workers' compensation liabilities have been liquidated by the Health Insurance Reserve Fund, an internal service fund.

(8) Pension Plan

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

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

The Department pays employer retirement contributions based upon an actuarially determined percentage of their payrolls. For fiscal year 2010, the employer contribution rate was 28.377%. Effective for pay periods beginning after December 31, 1991, the State opted to pay the employee portion of retirement for

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most State agencies (including the Department) with employees covered by the State Employees' and Teachers' Retirement Systems. However, effective with the fiscal year 2004 budget, the State opted to stop paying the portion or a part of the portion of retirement for many State agencies (including the Department) for certain classes of employees covered by the State Employees' and Teachers' Retirement Systems. The pickup, when applicable, is subject to sufficient annual appropriations and those employees covered may vary across employee groups and State agencies.

(9) Postemployment Benefits

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

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

Funding Policy and Annual Other Postemployment Benefits Cost: In accordance with the Act, the State contributes toward the cost of an annuitant's coverage under the basic program of group health, dental, and vision benefits an amount equal to five percent of that cost for each full year of creditable service up to a maximum of one hundred percent for an annuitant with twenty or more years of creditable service. For fiscal year 2010, the annual cost of the basic program of group health, dental, and vision benefits before the State's contribution was \$6,744.96 (\$3,528.24 if Medicare eligible) if the annuitant chose benefits provided by a health maintenance organization and \$9,683.76 (\$3,749.52 if Medicare eligible) if the annuitant chose other benefits. The State is not required to fund the plan other than the pay-as-you-go amount necessary to provide the current benefits to retirees.

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

Employee Annual Salary	Annual Employee Health, Dental, and Vision Contribution Requirements	
	Benefits Through a Health Maintenance Organization	Benefits Provided Through Other Than a Health Maintenance Organization
\$29,500 and below	\$696	\$996
\$29,501 - \$44,600	\$756	\$1,056
\$44,601 - \$59,300	\$786	\$1,086
\$59,301 - \$74,200	\$816	\$1,116
\$74,201 and above	\$846	\$1,146

The State's lack of funding requirement differs significantly from the annual OPEB cost ("AOPEBC") as pay-as-you-go does not conform to the GASB Statement No. 45 accounting parameters. The State's AOPEBC for the current year and related information (amounts expressed in thousands) are as follows:

Actuarially required contribution ("ARC")	\$ 1,907,421
Plus: interest on net other postemployment benefit obligation ("NOPEBO")	111,341
Adjustment to the ARC	(82,475)
Annual other postemployment benefits cost	1,936,287
Benefits paid during the year	531,749
Increase in NOPEBO	1,404,538
NOPEBO at June 30, 2009	2,474,254
NOPEBO at June 30, 2010	\$ 3,878,792

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

	6/30/2010
Annual Other Postemployment Benefit Cost	
6/30/2008	\$ 1,775,991
6/30/2009	\$ 1,839,728
6/30/2010	\$ 1,936,287
% of AOPEBC Contributed	
6/30/2008	30.29%
6/30/2009	32.81%
6/30/2010	27.46%
Net Other Postemployment Benefit Obligation	
6/30/2008	\$ 1,238,131
6/30/2009	\$ 2,474,254
6/30/2010	\$ 3,878,792

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

	(a)	(b)	(c)	(d)	(e)	(f)
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability ("AAL") Projected Unit Credit	Unfunded AAL ("UAAL") (b-a)	Funded Ratio (a/b)	Covered Payroll	UAAL as a Percentage of Covered Payroll (c/e)
6/30/2009	\$ -	\$27,124,061	\$27,124,061	0.0%	\$7,091,656	382.5%

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

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

Actuarial valuation date of the actuarial required contribution	6/30/2009
Actuarial valuation date of the unfunded actuarial accrued liability	6/30/2009
Actuarial cost method	Proj. Unit Credit
Amortization method	Level % of pay
Remaining amortization period	30 years. Open
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return*	4.5%
Projected salary increases*	4.5%
Inflation Rate	3.5%
Healthcare cost trend rate:	
Medical	9.0% grading down .5% per year over 8 years to 5.0%
Dental	8.0% grading down .5% per year over 6 years to 5.0%
Vision	6.0% for next year with 3.0% used for subsequent years
*Includes inflation rate listed	

(10) Fund Deficits

The General Fund, the Tobacco Settlement Recovery Fund, the Community College Health Insurance Security Fund and the Road Fund had deficit fund balances at June 30, 2010 of \$195.058 million, \$1.643 million, \$6.688 million and \$28.217 million, respectively. The General Fund and the Tobacco Settlement Recovery Fund deficits result from the liabilities of the Medicaid program recognized at June 30, 2010 which will be paid from future year appropriations and from the allocation of the State's health insurance claims incurred but not received. The deficit is expected to be eliminated through both future federal and other revenue sources of the State and the future recognition of unavailable revenue. The Community College Health Insurance Security Fund results from benefit payments exceeding contributions due to funding based on a pay-as-you-go basis. The Road Fund deficit results from the allocation of the State's health insurance claims incurred but not received. The deficit is expected to be eliminated through future revenues.

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(11) Risk Management

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

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

The Department administers the State of Illinois' risk management for employee health and dental insurance benefit programs of the State. The Health Insurance Reserve Fund, an internal service fund, is used to account for these benefit programs, which are partially self-funded. Employees of the State may obtain health care services through participation in the State's group health insurance plan or through membership in one of eight health maintenance organization plans under contract with the State. The State maintains the risk of insurance for employees who participate in the State's group health insurance plan. Expenses and liabilities for claims, which include incurred but not reported or not processed benefit claims, have been recorded as liabilities in the amount of \$486.301 million. Payments to the Health Insurance Reserve Fund are based on estimates of amounts needed to pay prior year unprocessed and current year claims.

The following is a reconciliation of the Department's claims liabilities (amounts expressed in thousands) for the years ended June 30, 2009 and 2010.

<u>Year Ended June 30</u>	<u>Beginning Balance</u>	<u>Claims Incurred</u>	<u>Decreases</u>	<u>Ending Balance</u>
2009	\$ 156,914	\$ 633,120	\$ 506,945	\$ 283,089
2010	\$ 283,089	\$ 742,282	\$ 539,070	\$ 486,301

(12) Local Government Health Insurance Reserve Fund Risk Pool Disclosure

The Local Government Health Insurance Reserve Fund (LGHIRF) was established to provide health and dental insurance to participating local governmental entities. Financial statements for the LGHIRF may be obtained from the Department. As of June 30, 2010, there were 452 local governmental entities participating with approximately 4,839 employees, 3,093 dependents and 320 retirees covered. Each participating local governmental unit is required to enter into a written agreement with the Department of Central Management Services (DCMS). The agreement sets forth the responsibilities of both parties. The Department issues a publicly available financial report that includes financial statements and required supplementary information for LGHIRF. The financial report may be obtained from the Department of Healthcare and Family Services, 201 South Grand Avenue, Springfield, Illinois, 62763.

The responsibilities required of the Department are:

- Establishment of the Local Government Health Insurance Reserve Fund
- Processing and payment of authorized claims

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The responsibilities required of the DCMS are:

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

The responsibilities required of the local governmental units are:

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

The LGHIRF had previously contracted with third-party reinsurers for reinsurance coverage. However, no such coverage was in place for the year ended June 30, 2010.

The basis used in calculating the estimated liability for future claims is based on claims reported but not paid during the fiscal year plus an estimate of claims incurred but not reported (IBNR). The estimate for claims incurred but not reported was calculated using a factor based on historical experience stated as a percentage of claims reported vs. total claims incurred during the policy cycle. For the year ended June 30, 2010, all claims are paid on a two-year claim cycle.

Based on the above method, the liability for future claims (amounts expressed in thousands) at June 30, 2010 is as follows:

Claims incurred and reported but not paid as of June 30	\$ 1,706
Estimated liability for claims incurred but not reported	<u>1,729</u>
Total estimated liability for future claims	<u>\$ 3,435</u>

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

Payments made for benefit claims	\$ 55,393
Less: Liability for unpaid claims, beginning of year	<u>3,165</u>
Subtotal	<u>52,228</u>
Add: Liability for unpaid claims, end of year	<u>3,435</u>
Total benefit claim payments and refunds	<u>\$ 55,663</u>

(13) Other Post-Employment Benefit Plans

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

For both plans, plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and when the employer has made a formal

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commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

The Department issues a publicly available financial report that includes financial statements and required supplementary information for each plan. The financial reports may be obtained from the Department of Healthcare and Family Services, 201 South Grand Avenue, Springfield, Illinois, 62763.

(a) *Teacher Retirement Insurance Plan (TRIP)*

The TRIP is accounted for in the Teacher Health Insurance Security Fund which was established to provide health insurance for the Illinois Teachers' Retirement System (TRS) annuitants and dependent beneficiaries. As of June 30, 2010, there were 1,007 school districts participating with approximately 55,784 annuitants and 9,549 dependents covered. The Department works in conjunction with the Illinois Teachers' Retirement System to administer the TRIP.

The responsibilities required of the Department are:

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

The responsibilities required of the TRS are:

- Enrollment of annuitants and dependents that meet eligibility guidelines and who elect to participate
- Termination of membership for annuitants and dependents
- Collection and transmission of monthly annuitant and dependent premiums
- Collection and transmission of 0.84 percent contribution from active teachers and 0.63 percent contributions from school districts for program funding purposes

(b) *Community College Insurance Plan (CCIP)*

The CCIP is accounted for in the Community College Health Insurance Security Fund which was established to provide health and dental insurance for the Illinois community college retirees and dependent beneficiaries. As of June 30, 2010, there were 38 community colleges and 1 community college association participating with approximately 4,981 annuitants and 873 dependents covered. The Department works in conjunction with the State Universities Retirement System (SURS) to administer the CCIP.

The responsibilities required of the Department are:

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

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June 30, 2010

The responsibilities required of SURS are:

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

(14) Commitments and Contingencies

(a) Operating Leases

The Department leases equipment, buildings and office space under terms of noncancelable operating lease agreements not extending past the end of the fiscal year, that require the Department to make minimum lease payments plus pay a pro rata share of certain operating costs. Rent expense under operating leases was \$5.444 million for the year ended June 30, 2010.

(b) Federal Funding

The Department receives federal grants which are subject to review and audit by federal grantor agencies. Certain costs could be questioned as not being an eligible expenditure under the terms of the grants. At June 30, 2010, there were no material questioned costs that have not been resolved with the federal awarding agencies. However, questioned costs could still be identified during audits to be conducted in the future. Management of the Department believes there will be no material adjustments to the federal grants and, accordingly, has not recorded a provision for possible repayment.

(c) Litigation

A statewide class action lawsuit existed at June 30, 2010 brought on behalf of individuals with mental retardation and other developmental disabilities (DD) who are allegedly required to reside in large privately-run congregate intermediate care facilities (ICF/DDs) as a condition of receiving services. A tentative settlement was reached during November 2008, but was rejected by the Court. Negotiations are continuing to develop a resolution of the case that will be satisfactory to the Court. The DD program is run by the Department of Human Services (DHS) and implementation of the settlement will be from the DHS budget with federal claiming implications for HFS.

A class action lawsuit pending on June 30, 2010 remains pending. This is a class action brought on behalf of Medicaid-eligible individuals with disabilities who desire to live in the community, but who are allegedly required to reside in skilled nursing facilities in Cook County as a condition of receiving services. On September 29, 2008, the Court certified that all Medicaid-eligible adults with disabilities in Cook County, Illinois, who are being, or may in the future be, unnecessarily confined to nursing facilities and who, with appropriate supports and services, may be able to live in a community setting. HFS administers medical assistance services provided through institutional settings. If relief is granted that results in the class receiving services in the community, that program is administered by DHS with federal claiming implications for HFS.

Adverse judgments in these matters generally could result in injunctive relief coupled with prospective changes in patient care that could require substantial increased financing of the litigated programs in the future. Because of the prospective nature of these matters and undeterminable exposure of loss, no provision for this potential exposure has been made in the accompanying basic financial statements.

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Notes to the Financial Statements

June 30, 2010

(15) Securities Lending Transactions

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

During fiscal year 2010 and 2009, Deutsche Bank Group lent U.S. agency securities and received as collateral U.S. dollar denominated cash. Borrowers were required to deliver collateral for each loan equal to at least 100% of the aggregate market value of the loaned securities. Loans are marked to market daily. If the market value of collateral falls below 100%, the borrower must provide additional collateral to raise the market value to 100%.

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

During the fiscal year, the State Treasurer and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in repurchase agreements with approved counterparties collateralized with securities approved by Deutsche Bank Group and marked to market daily at no less than 102 %. Because the loans are terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The State Treasurer had no credit risk as a result of its securities lending program as the collateral held exceeded the fair value of the securities lent. The securities lending collateral invested in repurchase agreements and the value of securities on loan for the State Treasurer as of June 30, 2010 were \$3,107,545,325 and \$3,095,533,634, respectively. The total collateral held and the value of securities on loan for the State Treasurer as of June 30, 2009 was \$961,557,402 and \$945,946,339, respectively. Securities on loan are reported at market value with the exception of US Treasury Bills and US Agency Discount notes which are reported at amortized cost.

In accordance with GASB Statement No. 28, paragraph 9, the Office of the State Treasurer has allocated the assets and obligations at June 30, 2010 arising from securities lending agreements to the various funds of the State. The total allocated to the Department at June 30, 2010 was \$155,189 thousand for governmental and business type activities and \$15,810 thousand for fiduciary funds.

(16) General Obligation Bonds

Pursuant to Public Act 96-0885, the State is authorized to issue \$250 million of general obligation bonds only during fiscal year 2010 for the making of deposits into the Healthcare Provider Relief Fund for the exclusive purpose of funding Medicaid services subject to the enhanced federal participation due to expire on December 31, 2010. On April 12, 2010, the State issued \$246.095 million of general obligation bonds, which mature on March 13, 2011 with an interest rate of 2.5%. Proceeds from the bonds were deposited into the Healthcare Provider Relief Fund (a sub-account of the General Fund).

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(17) Restatement

The Department's financial statements have been restated as of July 1, 2009. The General Fund was restated as a result of an overreported estimate of medical accrual liabilities.

	<u>General Fund</u>	<u>Governmental Activities</u>
Fund Balance/Net Assets, June 30, 2009, as previously reported	\$ (876,167)	\$ (2,489,364)
Overstatement of medical accrual	<u>524,937</u>	<u>524,937</u>
Fund Balance/Net Assets, June 30, 2009, as restated	<u>\$ (351,230)</u>	<u>\$ (1,964,427)</u>

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Required Supplementary Information

June 30, 2010

Defined Benefit Other Postemployment Benefit Plans – Schedule of Funding Progress (Unaudited)

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

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability ("AAL") Projected Unit Credit	(c) Unfunded AAL ("UAAL") (b-a)	(d) Funded Ratio (a/b)	(e) Covered Payroll	(f) UAAL as a Percentage of Covered Payroll (c/e)
6/30/2007	\$ -	\$23,890,383	\$23,890,383	0.0%	\$6,872,740	347.6%
6/30/2009	\$ -	\$27,124,061	\$27,124,061	0.0%	\$7,091,656	382.5%

State of Illinois
Department of Healthcare and Family Services

**Combining Schedule of Accounts -
General Fund**

June 30, 2010 (Expressed in Thousands)

	General Revenue Account 0001	U of I Hospital Services 0136	County Hospital Services 0329	Care Provider for Persons with DD 0344	Long-Term Care Provider 0345	Hospital Provider 0346	Special Education Medicaid Matching 0355
ASSETS							
Unexpended appropriations	\$ 993,196	\$ -	\$ -	\$ 5	\$ -	\$ -	\$ -
Cash equity with State Treasurer	1,099	34,614	1,304	-	48,480	152,329	4,577
Cash and cash equivalents	197	-	-	-	-	-	-
Securities lending collateral equity with State Treasurer	-	-	762	-	8,422	35,303	-
Due from other government - federal	1,174,036	43,259	59,909	2,585	84,568	632	53,676
Due from other government - local	-	-	39,914	-	11	-	186
Taxes receivable, net	-	-	-	229	4,493	343	-
Other receivables, net	1,871	-	2	-	18	76	-
Due from other Department funds	59,045	-	-	-	-	-	-
Due from other State funds	43	-	-	-	26	-	-
Total assets	\$ 2,229,487	\$ 77,873	\$ 101,891	\$ 2,819	\$ 146,018	\$ 188,683	\$ 58,439
LIABILITIES							
Accounts payable and accrued liabilities	\$ 1,494,515	\$ -	\$ -	\$ 3	\$ 131,125	\$ 843	\$ -
Due to other government - federal	794	-	-	-	2	-	-
Due to other government - local	-	-	101,129	-	6,431	-	58,439
Due to other State fiduciary funds	1	-	-	1	8	-	-
Due to other Department funds	642,085	-	-	1	7	-	-
Due to other State funds	10,851	-	-	-	23	-	-
Due to State of Illinois component units	16,471	72,547	-	-	-	-	-
Unavailable revenues	459,229	33,659	69,876	2,515	31,323	973	9,941
Obligations under securities lending of State Treasurer	-	-	762	-	8,422	35,303	-
Total liabilities	2,623,946	106,206	171,767	2,520	177,341	37,119	68,380
FUND BALANCES (DEFICITS)							
Reserved for encumbrances	-	-	-	-	1	-	-
Unreserved, undesignated	(394,459)	(28,333)	(69,876)	299	(31,324)	151,564	(9,941)
Total fund balances (deficits)	(394,459)	(28,333)	(69,876)	299	(31,323)	151,564	(9,941)
Total liabilities and fund balances (deficits)	\$ 2,229,487	\$ 77,873	\$ 101,891	\$ 2,819	\$ 146,018	\$ 188,683	\$ 58,439

State of Illinois
Department of Healthcare and Family Services

**Combining Schedule of Accounts -
General Fund**

June 30, 2010 (Expressed in Thousands)

	Trauma Center 0397	Public Assistance Recoveries Trust 0421	Medical Research and Development 0486	Post- Tertiary Clinical Services 0487	Juvenile Rehab Services Medicaid Matching 0575	Family Care 0720	Drug Rebate 0728
ASSETS							
Unexpended appropriations	-	-	-	-	-	-	-
Cash equity with State Treasurer	-	42,682	765	765	107	3,218	40,444
Cash and cash equivalents	-	-	-	-	-	-	-
Securities lending collateral equity with State Treasurer	-	-	-	-	-	1,555	12,437
Due from other government - federal	1,739	4,980	-	-	1,386	32	11,798
Due from other government - local	-	-	-	-	-	-	-
Taxes receivable, net	-	-	-	-	-	-	-
Other receivables, net	-	65,437	-	-	-	3	27
Due from other Department funds	-	-	-	-	-	5,548	40,661
Due from other State funds	-	128	-	-	-	17,201	-
Total assets	\$ 1,739	\$ 113,227	\$ 765	\$ 765	\$ 1,493	\$ 27,557	\$ 105,367
LIABILITIES							
Accounts payable and accrued liabilities	2,944	4,913	-	-	-	12,931	25,368
Due to other government - federal	-	25	-	-	-	-	-
Due to other government - local	-	5,144	-	-	1,493	-	-
Due to other State fiduciary funds	-	97	-	-	-	-	-
Due to other Department funds	-	99,781	-	-	-	-	-
Due to other State funds	-	3,267	-	-	-	118	-
Due to State of Illinois component units	-	-	-	-	-	64	-
Unavailable revenues	1,739	187	-	-	1,330	-	-
Obligations under securities lending of State Treasurer	-	-	-	-	-	1,555	12,437
Total liabilities	4,683	113,414	-	-	2,823	14,668	37,805
FUND BALANCES (DEFICITS)							
Reserved for encumbrances	-	-	-	-	-	-	-
Unreserved, undesignated	(2,944)	(187)	765	765	(1,330)	12,889	67,562
Total fund balances (deficits)	(2,944)	(187)	765	765	(1,330)	12,889	67,562
Total liabilities and fund balances (deficits)	\$ 1,739	\$ 113,227	\$ 765	\$ 765	\$ 1,493	\$ 27,557	\$ 105,367

*State of Illinois
Department of Healthcare and Family Services*

**Combining Schedule of Accounts -
General Fund**

June 30, 2010 (Expressed in Thousands)

	Independent Academic Medical Center 0735	Medicaid Buy-in Program Revolving 0740	Healthcare Provider Relief 0793	Medical Special Purpose Trust 0808	Eliminations	Total
ASSETS						
Unexpended appropriations	\$ -	\$ -	\$ -	-	-	\$ 993,201
Cash equity with State Treasurer	-	672	4,282	958	-	336,296
Cash and cash equivalents	-	-	-	-	-	197
Securities lending collateral equity with State Treasurer	-	226	75,252	-	-	133,957
Due from other government - federal	-	-	156,798	4,907	-	1,600,305
Due from other government - local	-	-	-	-	-	40,111
Taxes receivable, net	-	-	-	-	-	5,065
Other receivables, net	-	12	161	-	-	67,607
Due from other Department funds	-	-	78,779	326	\$ (184,359)	-
Due from other State funds	-	-	-	136	-	17,534
Total assets	\$ -	\$ 910	\$ 315,272	\$ 6,327	\$ (184,359)	\$ 3,194,273
LIABILITIES						
Accounts payable and accrued liabilities	-	7	\$ 130,083	\$ 105	-	\$ 1,802,837
Due to other government - federal	-	1	-	1	-	823
Due to other government - local	-	-	1,648	-	-	174,284
Due to other State fiduciary funds	-	2	-	4	-	113
Due to other Department funds	-	1	-	21	\$ (184,359)	557,537
Due to other State funds	-	-	-	56	-	14,315
Due to State of Illinois component units	-	-	32	101	-	89,215
Unavailable revenues	-	2	868	4,608	-	616,250
Obligations under securities lending of State Treasurer	-	226	75,252	-	-	133,957
Total liabilities	-	239	207,883	4,896	(184,359)	3,389,331
FUND BALANCES (DEFICITS)						
Reserved for encumbrances	-	-	-	-	-	1
Unreserved, undesignated	-	671	107,389	1,431	-	(195,059)
Total fund balances (deficits)	-	671	107,389	1,431	-	(195,058)
Total liabilities and fund balances (deficits)	\$ -	\$ 910	\$ 315,272	\$ 6,327	\$ (184,359)	\$ 3,194,273

State of Illinois
Department of Healthcare and Family Services
**Combining Schedule of Revenues,
 Expenditures and Changes in Fund Balance -
 General Fund**

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

	General Revenue Account 0001	U of I Hospital Services 0136	County Hospital Services 0329	Care Provider for Persons with DD 0344	Long-Term Care Provider 0345	Hospital Provider 0346	Special Education Medicaid Matching 0355
REVENUES							
Operating grants - federal	\$ 4,311,278	\$ 147,746	\$ 720,341	\$ 30,944	\$ 484,054	\$ 1,166,675	\$ 149,132
Other operating grants	-	45,000	637,259	-	12,432	-	-
Licenses and fees	18,097	-	-	-	-	-	-
Other charges for services	-	-	-	-	-	-	-
Interest and other investment income	13	-	23	-	323	659	-
Other taxes	-	-	-	19,021	219,470	881,984	-
Other	245,067	-	-	-	-	-	-
Total revenues	4,574,455	192,746	1,357,623	49,965	716,279	2,049,318	149,132
EXPENDITURES							
Health and social services	6,312,774	232,112	1,403,332	112	684,940	1,882,151	146,795
Education	394,093	-	-	-	-	-	-
Employment and economic development	15,169	-	-	-	-	-	-
General government	130,031	-	-	-	-	-	-
Transportation	3,300	-	-	-	-	-	-
Public protection and justice	366,822	-	-	-	-	-	-
Environment and business regulation	21,197	-	-	-	-	-	-
Capital outlays	7	-	-	-	-	-	-
Total expenditures	7,243,393	232,112	1,403,332	112	684,940	1,882,151	146,795
Excess (deficiency) of revenues over (under) expenditures	(2,668,938)	(39,366)	(45,709)	49,853	31,339	167,167	2,337
OTHER SOURCES (USES) OF FINANCIAL RESOURCES							
Appropriations from State resources	7,853,319	-	-	1,131	-	-	-
Lapsed appropriations	(629,879)	-	-	(1,019)	-	-	-
Receipts collected and transmitted to State Treasury	(4,474,166)	-	-	(53,111)	-	-	-
Premiums on general obligation bonds issued	-	-	-	-	-	-	-
General obligation bonds issued	-	-	-	-	-	-	-
Amount of SAMS transfers-in	(126,527)	-	-	-	-	-	-
Amount of SAMS transfers-out	30,000	-	-	-	-	-	-
Transfers-in	80,000	30,000	-	-	30,000	-	-
Transfers-out	(91,248)	-	-	-	-	(130,215)	-
Net other sources (uses) of financial resources	2,641,499	30,000	-	(52,999)	30,000	(130,215)	-
Net change in fund balances	(27,439)	(9,366)	(45,709)	(3,146)	61,339	36,952	2,337
Fund balances (deficits), July 1, 2009, as restated	(367,020)	(18,967)	(24,167)	3,445	(92,662)	114,612	(12,278)
FUND BALANCES (DEFICITS), JUNE 30, 2010	\$ (394,459)	\$ (28,333)	\$ (69,876)	\$ 299	\$ (31,323)	\$ 151,564	\$ (9,941)

State of Illinois
Department of Healthcare and Family Services
**Combining Schedule of Revenues,
Expenditures and Changes in Fund Balance -
General Fund**

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

	Trauma Center 0397	Public Assistance Recoveries Trust 0421	Medical Research and Development 0486	Post- Tertiary Clinical Services 0487	Juvenile Rehab Services Medicaid Matching 0575	Family Care 0720	Drug Rebate 0728
REVENUES							
Operating grants - federal	\$ 4,018	\$ 24,333	\$ 7,921	\$ 7,921	\$ 208	\$ 4,757	\$ 306,069
Other operating grants	-	-	-	-	-	-	-
Licenses and fees	-	-	-	-	-	-	-
Other charges for services	-	23,835	-	-	-	-	-
Interest and other investment income	-	-	-	-	-	12	211
Other taxes	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Total revenues	4,018	48,168	7,921	7,921	208	4,769	306,280
EXPENDITURES							
Health and social services	9,619	50,520	12,800	12,800	600	32,496	282,397
Education	-	-	-	-	-	-	-
Employment and economic development	-	-	-	-	-	-	-
General government	-	-	-	-	-	-	-
Transportation	-	-	-	-	-	-	-
Public protection and justice	-	-	-	-	-	-	-
Environment and business regulation	-	-	-	-	-	-	-
Capital outlays	-	-	-	-	-	-	-
Total expenditures	9,619	50,520	12,800	12,800	600	32,496	282,397
Excess (deficiency) of revenues over (under) expenditures	(5,601)	(2,352)	(4,879)	(4,879)	(392)	(27,727)	23,883
OTHER SOURCES (USES) OF FINANCIAL RESOURCES							
Appropriations from State resources	18,000	-	-	-	-	-	-
Lapsed appropriations	(11,325)	-	-	-	-	-	-
Receipts collected and transmitted to State Treasury	(6,104)	-	-	-	-	-	-
Premiums on general obligation bonds issued	-	-	-	-	-	-	-
General obligation bonds issued	-	-	-	-	-	-	-
Amount of SAMS transfers-in	-	-	-	-	-	-	-
Amount of SAMS transfers-out	-	6,787	6,400	6,400	-	38,971	-
Transfers-in	-	-	(1,752)	(1,752)	-	-	-
Transfers-out	-	-	-	-	-	-	-
Net other sources (uses) of financial resources	571	6,787	4,648	4,648	-	38,971	-
Net change in fund balances	(5,030)	4,435	(231)	(231)	(392)	11,244	23,883
Fund balances (deficits), July 1, 2009, as restated	2,086	(4,622)	996	996	(938)	1,645	43,679
FUND BALANCES (DEFICITS), JUNE 30, 2010	\$ (2,944)	\$ (187)	\$ 765	\$ 765	\$ (1,330)	\$ 12,889	\$ 67,562

State of Illinois
Department of Healthcare and Family Services
**Combining Schedule of Revenues,
 Expenditures and Changes in Fund Balance -
 General Fund**

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

	Independent Academic Medical Center 0735	Medicaid Buy-in Program Revolving 0740	Healthcare Provider Relief 0793	Medical Special Purpose Trust 0808	Eliminations	Total
REVENUES						
Operating grants - federal	\$ 2,475	\$ -	\$ 1,332,668	\$ 5,324		\$ 8,705,864
Other operating grants	-	-	-	525		695,216
Licenses and fees	-	549	-	-		18,646
Other charges for services	-	-	-	-	\$ (23,835)	-
Interest and other investment income	-	5	322	-		1,568
Other taxes	-	-	-	-		1,120,475
Other	1	-	-	-		245,068
Total revenues	2,476	554	1,332,990	5,849	(23,835)	10,786,837
EXPENDITURES						
Health and social services	4,000	259	1,470,579	5,007	(23,835)	12,519,458
Education	-	-	-	-		394,093
Employment and economic development	-	-	-	-		15,169
General government	-	-	-	-		130,031
Transportation	-	-	-	-		3,300
Public protection and justice	-	-	-	-		366,822
Environment and business regulation	-	-	-	-		21,197
Capital outlays	-	-	-	-		7
Total expenditures	4,000	259	1,470,579	5,007	(23,835)	13,450,077
Excess (deficiency) of revenues over (under) expenditures	(1,524)	295	(137,589)	842	-	(2,663,240)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES						
Appropriations from State resources	-	-	-	-		7,872,450
Lapsed appropriations	-	-	-	-		(642,223)
Receipts collected and transmitted to State Treasury	-	-	-	-		(4,533,381)
Premiums on general obligation bonds issued	-	-	3,903	-		3,903
General obligation bonds issued	-	-	246,095	-		246,095
Amount of SAMS transfers-in	-	-	-	-		(126,527)
Amount of SAMS transfers-out	-	-	-	-		30,000
Transfers-in	1,524	-	1,980	-	(162,419)	39,643
Transfers-out	-	(1,000)	(7,000)	-	162,419	(70,548)
Net other sources (uses) of financial resources	1,524	(1,000)	244,978	-	-	2,819,412
Net change in fund balances	-	(705)	107,389	842	-	156,172
Fund balances (deficits), July 1, 2009, as restated	-	1,376	-	589		(351,230)
FUND BALANCES (DEFICITS), JUNE 30, 2010	\$ -	\$ 671	\$ 107,389	\$ 1,431	\$ -	\$ (195,058)

*State of Illinois
Department of Healthcare and Family Services*

**Combining Balance Sheet -
Nonmajor Governmental Funds**

June 30, 2010 (Expressed in Thousands)

	Illinois Prescription Drug Discount Program 0316	Provider Inquiry Trust 0341	Money Follows the Person Budget Transfer 0522	Department of Corrections Reimbursement and Education 0523	Supplemental Low-Income Energy Assistance 0550
ASSETS					
Unexpended appropriations	\$ -	\$ -	\$ -	\$ -	\$ -
Cash equity with State Treasurer	256	720	570	-	-
Securities lending collateral equity with State Treasurer	-	-	102	-	-
Due from other government - federal	-	-	133	-	-
Other receivables, net	-	90	-	-	-
Due from other Department funds	-	-	-	-	-
Total assets	\$ 256	\$ 810	\$ 805	\$ -	\$ -
LIABILITIES					
Accounts payable and accrued liabilities	\$ -	\$ -	\$ 3	\$ -	\$ -
Due to other government - federal	-	-	-	-	-
Due to other government - local	-	-	-	-	-
Due to other State fiduciary funds	-	-	-	-	-
Due to other Department funds	-	-	-	-	-
Due to other State funds	-	-	-	-	-
Due to State of Illinois component units	-	-	226	-	-
Unavailable revenue	-	3	-	-	-
Obligations under securities lending of State Treasurer	-	-	102	-	-
Total liabilities	-	3	331	-	-
FUND BALANCES					
Unreserved, undesignated	256	807	474	-	-
Total fund balances	256	807	474	-	-
Total liabilities and fund balances	\$ 256	\$ 810	\$ 805	\$ -	\$ -

State of Illinois
Department of Healthcare and Family Services

**Combining Balance Sheet -
 Nonmajor Governmental Funds**

June 30, 2010 (Expressed in Thousands)

	Tobacco Settlement Recovery 0733	Child Support Administration 0757	Total
ASSETS			
Unexpended appropriations	485	-	\$ 485
Cash equity with State Treasurer	-	55,860	57,406
Securities lending collateral equity with State Treasurer	-	-	102
Due from other government - federal	2,981	12,341	15,455
Other receivables, net	-	9,861	9,951
Due from other Department funds	-	13,944	13,944
Total assets	\$ 3,466	\$ 92,006	\$ 97,343
LIABILITIES			
Accounts payable and accrued liabilities	4,624	6,775	\$ 11,402
Due to other government - federal	-	6,560	6,560
Due to other government - local	-	8,717	8,717
Due to other State fiduciary funds	-	699	699
Due to other Department funds	-	611	611
Due to other State funds	-	9,208	9,208
Due to State of Illinois component units	485	-	711
Unavailable revenue	-	4,646	4,649
Obligations under securities lending of State Treasurer	-	-	102
Total liabilities	\$ 5,109	\$ 37,216	\$ 42,659
FUND BALANCES			
Unreserved, undesignated	(1,643)	54,790	54,684
Total fund balances	(1,643)	54,790	54,684
Total liabilities and fund balances	\$ 3,466	\$ 92,006	\$ 97,343

State of Illinois
Department of Healthcare and Family Services
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds

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

	Special Revenue				
	Illinois Prescription Drug Discount Program 0316	Provider Inquiry Trust 0341	Money Follows the Person Budget Transfer 0522	Department of Corrections Reimbursement and Education 0523	Supplemental Low-Income Energy Assistance 0550
REVENUES					
Operating grants - federal	\$ -	\$ -	\$ 449	\$ 74	\$ -
License and fees	-	1,136	-	-	-
Other charges for services	-	-	-	-	-
Interest and other investment income	-	-	2	-	-
Other revenues, net	10	-	-	-	33
Total revenues	10	1,136	451	74	33
EXPENDITURES					
Health and social services	-	715	754	-	-
Total expenditures	-	715	754	-	-
Excess (deficiency) of revenues over (under) expenditures	10	421	(303)	74	33
OTHER SOURCES (USES) OF FINANCIAL RESOURCES					
Appropriations from State resources	-	-	-	-	-
Lapsed appropriations	-	-	-	-	-
Receipts collected and transmitted to State Treasury	-	-	-	(74)	(33)
Transfers-in	-	-	400	-	-
Transfers-out	-	(200)	-	-	-
Net other sources (uses) of financial resources	-	(200)	400	(74)	(33)
Net change in fund balances	10	221	97	-	-
Fund balances, July 1, 2009	246	586	377	-	-
FUND BALANCES, JUNE 30, 2010	\$ 256	\$ 807	\$ 474	\$ -	\$ -

State of Illinois
Department of Healthcare and Family Services
**Combining Statement of Revenues,
 Expenditures and Changes in Fund Balances -
 Nonmajor Governmental Funds**

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

	<u>Special Revenue</u>			
	Tobacco Settlement Recovery 0733	Child Support Administration 0757	Total	
REVENUES				
Operating grants - federal	\$ 351,996	\$ 127,061	\$ 479,580	
License and fees	-	-	1,136	
Other charges for services	-	16,814	16,814	
Interest and other investment income	-	-	2	
Other revenues, net	-	-	43	
Total revenues	<u>351,996</u>	<u>143,875</u>	<u>497,575</u>	
EXPENDITURES				
Health and social services	618,279	168,753	788,501	
Total expenditures	<u>618,279</u>	<u>168,753</u>	<u>788,501</u>	
Excess (deficiency) of revenues over (under) expenditures	<u>(266,283)</u>	<u>(24,878)</u>	<u>(290,926)</u>	
OTHER SOURCES (USES) OF FINANCIAL RESOURCES				
Appropriations from State resources	743,100	-	743,100	
Lapsed appropriations	(123,074)	-	(123,074)	
Receipts collected and transmitted to State Treasury	(369,315)	-	(369,422)	
Transfers-in	-	42,531	42,931	
Transfers-out	(12,800)	-	(13,000)	
Net other sources (uses) of financial resources	<u>237,911</u>	<u>42,531</u>	<u>280,535</u>	
Net change in fund balances	<u>(28,372)</u>	<u>17,653</u>	<u>(10,391)</u>	
Fund balances, July 1, 2009	26,729	37,137	65,075	
FUND BALANCES, JUNE 30, 2010	<u>\$ (1,643)</u>	<u>\$ 54,790</u>	<u>\$ 54,684</u>	

State of Illinois

Department of Healthcare and Family Services

**Combining Statement of Fiduciary Net Assets -
Pension (and Other Employee Benefit) Trust Funds**

June 30, 2010 (Expressed in Thousands)

	Teacher Health Insurance Security 0203	Community College Health Insurance Security 0577	Total
ASSETS			
Cash equity with State Treasurer	\$ 48,028	\$ 1,201	\$ 49,229
Cash and cash equivalents	7,644	413	8,057
Securities lending collateral	15,131	679	15,810
Receivables, net:			
Federal government	6,276	608	6,884
Employee	4,685	184	4,869
Employer	3,514	184	3,698
Interest and investment income	32	1	33
Other	10,162	1,134	11,296
Total assets	95,472	4,404	99,876
LIABILITIES			
Accounts payable and accrued liabilities	40,864	10,382	51,246
Intergovernmental payables	3	1	4
Due to other State fiduciary funds	10	3	13
Due to other Department funds	9	4	13
Due to other State funds	135	16	151
Securities lending transactions	15,131	679	15,810
Long term obligations:			
Due subsequent to one year	97	7	104
Total liabilities	56,249	11,092	67,341
NET ASSETS HELD IN TRUST FOR PENSION AND OTHER EMPLOYEE BENEFITS	\$ 39,223	\$ (6,688)	\$ 32,535

State of Illinois

Department of Healthcare and Family Services

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

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

	Teacher Health Insurance Security 0203	Community College Health Insurance Security 0577	Total
ADDITIONS			
Contributions:			
Employer	\$ 67,706	\$ 3,966	\$ 71,672
State	79,007	4,059	83,066
Plan members:			
Active	90,243	3,966	94,209
Retiree	151,057	12,504	163,561
Terminated employees	98	-	98
Federal Medicare Part D	23,897	2,267	26,164
Total contributions	412,008	26,762	438,770
Investment Income:			
Interest and other investment income	324	12	336
Net investment income	324	12	336
Total additions	412,332	26,774	439,106
DEDUCTIONS			
Benefit payments and refunds	425,333	34,255	459,588
General and administration	2,379	653	3,032
Total deductions	427,712	34,908	462,620
Net additions (deductions)	(15,380)	(8,134)	(23,514)
Net assets held in trust for pension and other employee benefits, July 1, 2009	54,603	1,446	56,049
NET ASSETS HELD IN TRUST FOR PENSION AND OTHER EMPLOYEE BENEFITS, June 30, 2010	\$ 39,223	\$ (6,688)	\$ 32,535

State of Illinois

Department of Healthcare and Family Services

**Combining Statement of Fiduciary Net Assets -
Agency Funds**

June 30, 2010 (Expressed in Thousands)

	Child Support Enforcement Trust 0957	Child Support Enforcement Trust - SDU 2957	Total
ASSETS			
Cash equity with State Treasurer	\$ 15,683	\$ -	\$ 15,683
Cash and cash equivalents	156	1,038	1,194
Other receivables, net	216,276	311	216,587
Due from other State funds	1	-	1
Total assets	\$ 232,116	\$ 1,349	\$ 233,465
LIABILITIES			
Accounts payable and accrued liabilities	\$ 18,684	\$ 1,349	\$ 20,033
Other liabilities	213,432	-	213,432
Total liabilities	\$ 232,116	\$ 1,349	\$ 233,465

State of Illinois
Department of Healthcare and Family Services

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

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

	Balance at July 1, 2009	Additions	Deletions	Balance at June 30, 2010
Child Support Enforcement Trust (0957)				
ASSETS				
Cash equity with State Treasurer	\$ 14,854	\$ 225,964	\$ 225,135	\$ 15,683
Cash and cash equivalents	227	62,122	62,193	156
Other receivables, net	217,914	224,324	225,962	216,276
Due from other State funds	-	3	2	1
Total assets	\$ 232,995	\$ 512,413	\$ 513,292	\$ 232,116
LIABILITIES				
Accounts payable and accrued liabilities	\$ 17,531	\$ 60,351	\$ 59,198	\$ 18,684
Other liabilities	215,464	226,098	228,130	213,432
Total liabilities	\$ 232,995	\$ 286,449	\$ 287,328	\$ 232,116
Child Support Enforcement Trust - SDU (2957)				
ASSETS				
Cash and cash equivalents	\$ 1,132	\$ 1,035,923	\$ 1,036,017	\$ 1,038
Other receivables, net	72	711	472	311
Total assets	\$ 1,204	\$ 1,036,634	\$ 1,036,489	\$ 1,349
LIABILITIES				
Accounts payable and accrued liabilities	\$ 1,204	\$ 1,036,162	\$ 1,036,017	\$ 1,349
Total liabilities	\$ 1,204	\$ 1,036,162	\$ 1,036,017	\$ 1,349
Total				
ASSETS				
Cash equity with State Treasurer	\$ 14,854	\$ 225,964	\$ 225,135	\$ 15,683
Cash and cash equivalents	1,359	1,098,045	1,098,210	1,194
Other receivables, net	217,986	225,035	226,434	216,587
Due from other State funds	-	3	2	1
Total assets	\$ 234,199	\$ 1,549,047	\$ 1,549,781	\$ 233,465
LIABILITIES				
Accounts payable and accrued liabilities	\$ 18,735	\$ 1,096,513	\$ 1,095,215	\$ 20,033
Other liabilities	215,464	226,098	228,130	213,432
Total liabilities	\$ 234,199	\$ 1,322,611	\$ 1,323,345	\$ 233,465

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OFFICE OF THE AUDITOR GENERAL
WILLIAM G. HOLLAND

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of Illinois, Department of Healthcare and Family Services, as of and for the year ended June 30, 2010, which collectively comprise the State of Illinois, Department of Healthcare and Family Services' basic financial statements, and have issued our report thereon dated April 20, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Illinois, Department of Healthcare and Family Services' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements and not for the purpose of expressing an opinion on the effectiveness of the State of Illinois, Department of Healthcare and Family Services' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State of Illinois, Department of Healthcare and Family Services' internal control over financial reporting.

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

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

A *significant deficiency* is a deficiency or 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 finding 10-2 in the accompanying schedule of findings to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Illinois, Department of Healthcare and Family Services' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as item 10-1.

The State of Illinois, Department of Healthcare and Family Services' responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the State of Illinois, Department of Healthcare and Family Services' responses and, accordingly, we express no opinion on them.

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


Bruce L. Bullard, CPA
Director of Financial and Compliance Audits

April 20, 2011

STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES
SCHEDULE OF FINDINGS
For the Year Ended June 30, 2010

10-1. **FINDING** (Financial statement preparation)

The Department of Healthcare and Family Services' (Department) year-end financial reporting in accordance with generally accepted accounting principles (GAAP) submitted to the Illinois Office of the Comptroller (Comptroller) contained weaknesses and inaccuracies.

Several errors were identified during the audit of the Department's draft financial statements. The Department's financial statements were adjusted for the following reporting errors:

- An adjustment identified by management totaling \$524.937 million was made to restate accounts payable as of July 1, 2009 due to an inaccurate estimate of the Department's medical accrual liability.
- An adjustment identified by management totaling \$336.547 million was made to recognize Medicare Part A and B expenditures that were owed to the federal government. Instead of the Department paying the federal government with a warrant, the federal government reduced the Department's receipts from federal reimbursement. As a result, expenditures and federal receipts were increased \$336.547 million to reflect these transactions.
- The Department and the Comptroller recorded a total of \$11.001 million of transfers to other funds and \$5.533 million of health and social service expenditures due to the Department reporting payments that were processed by the Department prior to June 30, 2010 but had not been paid by the Comptroller after June 30, 2010.
- The Department allocated the incorrect amount of current spending paid from the General Revenue Fund for the State Employees Health Insurance Plan. As a result, \$24.199 million was not reclassified from the health and social services expenditures to the appropriate expenditure functions.
- Receivables totaling \$16.830 million were overstated due to the Department not recognizing a cash payment that was received by the Department prior to June 30, 2010.
- Revenues from expenditures that qualify for federal reimbursement totaling \$38.466 million were not recorded in the financial statements as a due from federal government and unavailable revenue. The receipts were not collected within the available period of 60 days.

STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES
SCHEDULE OF FINDINGS
For the Year Ended June 30, 2010

- Liabilities related to medical accrual were incorrectly calculated resulting in accounts payable and health and social service expenditures to be understated \$10.658 million.
- Receivables totaling \$4.585 million were recognized as revenues instead of deferred revenue. The receipts were not collected within the available period of 60 days.
- Payments to local governments totaling \$2.160 million were classified as accounts payable instead of due to other governments – local.

Also, we noted 13 of 33 (39%) GAAP Reporting Packages were not submitted to the Comptroller in a timely manner. The GAAP Reporting Packages were submitted to the Comptroller 3 to 19 days late. Further, a complete set of the Department's financial statements were not provided to the auditors until November 30, 2010, 15 days after the required due date.

The Comptroller requires State agencies to prepare GAAP Reporting Packages to assist in the annual preparation of the Statewide financial statements and the Department's financial statements. GAAP Reporting Package instructions are specified in the Statewide Accounting Management System (SAMS) (Chapter 27). The Comptroller also sets due dates for the financial information to be submitted in order for the Statewide and Department's financial statements to be prepared and audited within a specified timeline to provide the financial statements to users in a timely manner.

Further, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system 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 reports and to maintain accountability over the State's resources.

Department management stated the underlying causes for untimely and inaccurate financial reporting can be attributed to the number of funds and the cumbersome nature of the State's financial reporting process. Regarding the fiscal year 2009 restatement issue, the Department believes that more specific and timely guidance as well as training from the Comptroller regarding the reporting of held warrants would have assisted the Department in handling the reporting appropriately. Retention of key staff and lack of institutional knowledge in some areas are also contributing factors in ensuring Department activities are reflected appropriately in the financial statements.

Failure to implement appropriate internal controls and provide timely financial information could lead to future misstatements of the State-wide and the Department's financial statements. (Finding Code No. 10-1, 09-2)

STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES
SCHEDULE OF FINDINGS
For the Year Ended June 30, 2010

RECOMMENDATION

We recommend the Department implement additional internal control procedures to ensure GAAP Reporting Packages are prepared in an accurate and timely manner.

DEPARTMENT RESPONSE

The Department accepts the recommendation. The Department is continually assessing the financial reporting process and implementing procedures to improve upon timeliness and accuracy. This is an ongoing effort and the Department continues to strive to meet the mandated deadlines.

Specifically, the Department is taking the following steps to enhance the internal controls over financial reporting:

- Continue providing training to staff with an emphasis on prior year audit findings.
- Existing GAAP preparation and review checklists will be enhanced as necessary to minimize the potential of financial adjustments.
- Formally request an appropriately summarized and formatted electronic report of held warrants from the Comptroller to assist the Department in identifying the various components, including intergovernmental transfers and administrative liabilities.
- Formally request guidance from the Comptroller regarding the presentation of held warrants prior to completing FY11 financial statements.
- Establish a workgroup to meet quarterly and discuss the impact of ongoing Department operations on financial reporting.
- Document all procedures and review processes related to the medical accrual and the allocation of the accrual across Department funds.
- Take additional steps to ensure the most qualified staff are hired in the accounting areas.

The Department would also like to note that while continued improvement in timeliness of financial package submission is necessary, we have demonstrated an improvement in the timeliness of the submissions from FY09 to FY10.

STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES
SCHEDULE OF FINDINGS
For the Year Ended June 30, 2010

10-2. **FINDING** (Lack of written rate-setting methodology)

The Illinois Department of Healthcare and Family Services (Department) did not have a documented written rate-setting methodology to calculate the insurance rates that are used to determine the premium rates charged to participants for the Teachers' Retirement Insurance Program (TRIP).

Auditors met with Department personnel to discuss the process of calculating insurance rates that are used to determine premium rates. During this discussion, the Department walked the auditors through a series of spreadsheets containing historical and current insurance costs, revenues and cash flow information for TRIP. The Department calculates insurance rates, which are based on, but not limited to costs, cash flows, and utilization levels. The Department then develops the premium rates that are charged for TRIP based on the calculated insurance rates and statutory limitations on the maximum premium rates that can be charged in a fiscal year. Auditors did not have any exceptions relating to incorrect premium rates being charged to participants for TRIP.

However, we noted that only one individual is involved in calculating the insurance rates and there was no written rate-setting methodology of how this individual calculates the TRIP insurance rates. Additionally, there was no formal process for a documented review of the insurance rate calculation.

Further, auditors noted that the Department did provide the Teachers' Retirement System of the State of Illinois by April 15th with historical and projected data on enrollment, utilization, and costs of TRIP information which is used to determine the amount of health care premiums charged to participants in TRIP; however, there was no rate-setting methodology provided explaining where the information was obtained from and what information was used to determine the premium rates.

The State Employees Group Insurance Act of 1971 (5 ILCS 375/6.5(e)) requires the Director of the Department of Central Management Services to determine the insurance rates and premiums for Teachers' Retirement System benefit recipients and dependent beneficiaries, and present to the Teachers' Retirement System of the State of Illinois, by April 15th of each calendar year, the rate-setting methodology (including but not limited to utilization levels and costs) used to determine the amount of the health care premiums.

Executive Order 2005-3, *Executive Order to Reorganize Agencies by the Transfer of Certain Healthcare Procurement and Administrative Functions Primarily of the Department of Central Management Services to the Department of Healthcare and Family Services* issued by the Governor on April 1, 2005 transferred the respective powers, duties, rights and responsibilities related to State Healthcare Purchasing from various departments, including CMS, to the Department of Healthcare and Family Services. The Executive Order states the statutory powers, duties, rights and responsibilities of the various agencies, including CMS, derive from various statutes

STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES
SCHEDULE OF FINDINGS
For the Year Ended June 30, 2010

including 5 ILCS 375 et seq. The functions associated with State Healthcare Purchasing intended to be transferred included rate development.

Good internal controls would require that no one individual should control a key aspect of a transaction or event. The Statewide Accounting Management Systems Manual (Procedure 2.50.10) requires duties and responsibilities be assigned systematically to a number of individuals to ensure that effective checks and balances are in place and routinely practiced.

A formal written rate-setting methodology would provide clear procedures and specific documentation requirements for ensuring that insurance rates are being calculated consistently and the correct premium rates are being charged for TRIP. An independent review assists in ensuring calculations are accurate and conclusions are reasonable.

Department management stated that the rate setting calculations are performed via formulas retained in electronic spreadsheets; therefore, staff did not consider written procedures documenting the methodology as necessary.

Without a formal written rate-setting methodology, the Department cannot ensure that the insurance rates are being calculated consistently and correct premium rates being charged for TRIP are in accordance with State statutory requirements. In addition, over reliance on one individual for the calculation of TRIP insurance rates without a proper written rate-setting methodology subjects the State to potential disruption in the event that there are changes to that individual's employment status. (Finding Code No. 10-2)

RECOMMENDATION

We recommend the Department develop a formal written rate-setting methodology as required by the State Employees Group Insurance Act.

DEPARTMENT RESPONSE

The Department accepts the recommendation and will develop a formal written rate-setting methodology used to determine the premium rates for the Teachers' Retirement Insurance Program.

STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES
PRIOR FINDINGS NOT REPEATED (GOVERNMENT AUDITING STANDARDS)
For the Year Ended June 30, 2010

A. **FINDING** (Failure to provide engagement documentation timely)

During the prior examination, the Illinois Department of Healthcare and Family Services (Department) failed to provide requested engagement documentation timely. Specifically, the Department provided 128 of 277 (46%) of the items requested after the two week deadline.

During the current examination, the Department made significant improvements in providing the requested engagement documentation timely. (Finding Code No. 09-1)

B. **FINDING** (Insufficient controls over the University of Illinois Hospital Services Fund)

During the prior examination, the Illinois Department of Healthcare and Family Services (Department) did not have adequate controls for hospital rates that are reimbursed to the University of Illinois Hospital and Clinics (Hospital) for services provided to individuals.

During the current examination, the Department updated the hospital rates that are reimbursed to the Hospital for services provided to individuals. (Finding Code No. 09-3, 08-6)

C. **FINDING** (Incorrect health insurance premium rates charged)

In the prior examination, the Illinois Department of Healthcare and Family Services (Department) did not charge the correct health insurance premium rates for the Teachers' Retirement Insurance Program.

In the current examination, our testing did not disclose any errors for the Teachers' Retirement Insurance Program. (Finding Code No. 09-4, 08-7)