STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES
COMMUNITY COLLEGE HEALTH INSURANCE SECURITY FUND

FINANCIAL AUDIT
For the Year Ended June 30, 2012

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DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES
COMMUNITY COLLEGE HEALTH INSURANCE SECURITY FUND
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For the Year Ended June 30, 2012

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AGENCY OFFICIALS

Director	Julie Hamos
Assistant Director	Sharron Matthews
General Counsel	Jeanette Badrov
Inspector General	John C. Allen (07/01/11 – 10/31/11) Bradley Hart (11/01/11 – Current)
Division of Finance, Administrator	Vacant (07/01/11 – 08/31/11) Frank Kopel (09/01/11 – 12/31/12) Vacant (1/1/13 - 2/28/13) Michael Casey (3/1/13 - Current)
Office of Fiscal Management, Chief	Jack Dodds

Department of Healthcare and Family Services offices are located at:

201 South Grand Avenue East
Springfield, IL 62763

2200 Churchill Road
Springfield, IL 62702

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying financial statements of the Illinois Department of Healthcare and Family Services' Community College Health Insurance Security Fund was performed by the Office of the Auditor General.

Based on their audit, the auditors expressed an unqualified opinion on the Community College Health Insurance Security Fund's financial statements.

EXIT CONFERENCE

The Department waived an exit conference in correspondence dated March 18, 2013.

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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 Community College Health Insurance Security Fund of the State of Illinois, Department of Healthcare and Family Services, as of and for the year ended June 30, 2012, 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 an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate for the circumstances, but 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 express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 opinion.

As discussed in Note A, the financial statements present only the Community College Health Insurance Security Fund and do not purport to, and do not, present fairly the financial position of the State of Illinois, Department of Healthcare and Family Services as of June 30, 2012, and its changes in financial position 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 financial position of the Community College Health Insurance Security Fund of the State of Illinois, Department of Healthcare and Family Services, as of June 30, 2012, and the changes in financial position 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 March 29, 2013 on our consideration of the State of Illinois, Department of Healthcare and Family Services' internal control over financial reporting of the Community College Health Insurance Security Fund and on our tests of the State of Illinois, Department of Healthcare and Family Services' 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.

Accounting principles generally accepted in the United States of America require that the Schedule of Funding Progress for the year ended June 30, 2012 and the Schedule of Contributions from Employers and Other Contributing Entities for the year ended June 30, 2012 on pages 17 and 18 be presented to supplement the fund financial statements. Such information, although not a part of the financial statements of the Community College Health Insurance Security Fund is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the fund financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the fund financial statements, and other knowledge we obtained during our audit of the fund financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Bruce L. Bullard

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

March 29, 2013

STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES
COMMUNITY COLLEGE HEALTH INSURANCE SECURITY FUND

STATEMENT OF PLAN NET ASSETS

June 30, 2012

(amounts expressed in thousands)

Assets		
Cash and Short-term Investments	$	2,502
Securities Lending Collateral Equity with State Treasurer		559
Receivables		
Employer		230
Employee		230
Federal Government Medicare Part D		563
Other Receivables		881
Total Receivables		1,904
Due from Other Funds		2,564
Total Assets		7,529
Liabilities		
Accounts Payable and Other		44,927
Due to Other Government - Federal		1
Due to Other Funds		22
Obligations under Securities Lending of State Treasurer		559
Total Current Liabilities		45,509
Long-term Compensated Absences		6
Total Liabilities		45,515
Net Assets Held in Trust for Other Postemployment Benefits	$	(37,986)

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

STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES
COMMUNITY COLLEGE HEALTH INSURANCE SECURITY FUND
STATEMENT OF CHANGES IN PLAN NET ASSETS
For the Year Ended June 30, 2012

(amounts expressed in thousands)

Additions		
Contributions		
Employer	$	4,269
State		4,396
Plan Members		
Actives		4,269
Retirees		14,953
Federal Government Medicare Part D		2,424
Total Contributions		30,311
Interest Income		10
Total Additions		30,321
Deductions		
Benefit Payments and Refunds		45,861
General and Administrative Expense		2,789
Total Deductions		48,650
Net Additions / (Deductions)		(18,329)
Net Assets Held in Trust for Other Postemployment Benefits		
Beginning of Year		(19,657)
End of Year	$	(37,986)

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

The Community College Health Insurance Security Fund (CCHISF) is a non-appropriated trust fund held outside the State Treasury, with the State Treasurer as custodian. Revenues deposited into the Trust are for the sole purpose of providing health benefits to retirees and their dependents as established under the plan, and associated administrative costs. CCHISF is a cost-sharing multiple-employer defined benefit post-employment healthcare plan that covers retired employees and their dependents of Illinois community college districts throughout the State of Illinois, excluding the City Colleges of Chicago. CCHISF health coverage includes provisions for medical, prescription drugs, vision and dental benefits and behavioral health benefits.

Eligibility to participate in the CCHISF is defined in the State Employees Group Insurance Act of 1971 (Act) (5 ILCS 375/3). The Act (5 ILCS 375/6.9) also establishes health benefits for community college benefit recipients and dependent beneficiaries. The Illinois Departments of Healthcare and Family Services (HFS) and Central Management Services (CMS) administer the plan with the cooperation of the State Universities Retirement System and the boards of trustees of the various community college districts.

A. Summary of Significant Accounting Principles

Financial Reporting Entity: As defined by Generally Accepted Accounting Principles (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 Community College Health Insurance Security Fund has no component units and is not a component unit of any other entity. However, because the Community College Health Insurance Security Fund is not legally separate from the State of Illinois, the financial statements of the Community College Health Insurance Security Fund are included in the financial statements of the State of Illinois as a pension (and other employee benefit) trust fund. 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.

Basis of Presentation: The financial statements present only the Community College Health Insurance Security Fund administered by the State of Illinois, Department of Healthcare and Family Services. They are intended to present the financial position and the changes in financial position of only the Community College Health Insurance Security Fund. They do not purport to, and do not, present fairly the financial position of the State of Illinois or the Department of Healthcare and Family Services as of June 30, 2012, and the changes in financial position for the year ended in conformity with accounting principles generally accepted in the United States of America.

Basis of Accounting: CCHISF's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and when the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Cash and Cash Equivalents: Cash and cash equivalents include cash on hand and cash in banks for locally held funds. Cash equivalents are defined as short-term, highly liquid investments readily convertible to cash.

Investments/Deposits: The investments are in State Treasury Investment Pool (Illinois Funds). Investments are reported at fair value.

Compensated Absences: The liability for compensated absences reported in the statement of plan net assets consists of unpaid, accumulated vacation and sick leave balances for Department employees. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The liability has been calculated based on the employees' current salary level and includes salary related costs (e.g., Social Security and Medicare tax).

Legislation that became effective January 1, 1998, capped the paid sick leave for all State Employees' Retirement System members at December 31, 1997. Employees continue to accrue twelve sick days per year, but will not receive monetary compensation for any additional time earned after December 31, 1997. Sick days earned between 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.

Use of Estimates: The preparation of financial statements in conformity with Generally Accepted Accounting Principles (GAAP) requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and to disclose 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.

B. Contribution Information

Membership in the plan consisted of the following at June 30, 2012:

Retirees and beneficiaries receiving benefits	6,539
Waived retirees who may elect healthcare coverage in the future	1,315
Terminated plan members entitled to but not yet receiving benefits	4,466
Active plan members	22,203
Total	34,523
Number of participating employers	39

The State Employees Group Insurance Act of 1971 (5 ILCS 375/6.10) requires every active contributor of the State Universities Retirement System (SURS), who is a full-time employee of a community college district or an association of community college boards, to make contributions to the plan at the rate of .5% of salary. The same section of statute requires every community college district or association of community college boards, that is an employer under the SURS, to contribute to the plan an amount equal to .5% of the salary paid to its full-time employees who participate in the plan. The State Pension Funds Continuing Appropriation Act (40 ILCS 15/1.4) requires the State to make an annual appropriation to the fund in an amount certified by the SURS Board of Trustees. The State Employees Group Insurance Act of 1971 (5 ILCS 375/6.9) requires the Healthcare and Family Services' Director to determine the rates and premiums for annuitants and dependent beneficiaries and establish the cost-sharing parameter, as well as funding. At the option of the board of trustees, the college districts may pay all or part of the balance of the cost of coverage for retirees from their district. Administrative costs are paid by the CCHISF.

For the year ending 2012, member annuitants (including their dependent beneficiaries) contributed $14.95 million, or approximately 53.62% of total premiums through their required contributions, ranging from $97.69 to $102.83 per month per retiree, and from $390.76 to $411.33, per month per dependent beneficiary (assuming Medicare eligibility). Non-Medicare eligible members' required contributions ranged from $93.66 to $428.26 per retiree and from $374.65 to $1,477.91 per dependent family members. Active employees contributed $4.27 million, or approximately 15.31% of total premiums, representing .5% of their salaries, and participating college districts contributed $4.27 million, or 15.31% of total premiums, representing their required .5% contribution. The State contributed $4.40 million, or approximately 15.76% of total premiums, representing their required contribution of .5% of estimated active employee salaries. The fund received $2.42 million in Medicare Part D subsidy payments from the federal government.

C. Deposits and Investments

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 with the State Treasurer totaled $1,122 thousand and cash on deposit for funds held outside the State Treasurer totaled $1 thousand at June 30, 2012.

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, 2012, the Department had the following investments in the State Treasury Investment Pool (Illinois Funds):

	Fair Value (Thousands)	Weighted Average Maturity (Years)
State Treasury Investment Pool (Illinois Funds)	$1,379	0.069
Total fixed income investments	$1,379	

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 State Treasury Investment Pool (Illinois Funds) were rated AAAm by Standard & Poor's.

D. Status and Funding Progress – OPEB Plans

The funded status of the plan as of the most recent actuarial valuation date available as of June 30, 2012, is as follows (amounts expressed in thousands):

Actuarial Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)-- Projected Unit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
6/30/11	$(19,657)	$2,053,133	$2,072,790	-0.96%	$922,823	224.61%

Actuarial 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. Actuarially determined amounts 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, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time, relative to the actuarial accrued liabilities for benefits.

The accompanying Schedule of Contributions from Employers and Other Contributing Entities presents trend information about the amounts contributed to the plan by employers in comparison to the Annual Required Contribution (ARC), an amount that is actuarially determined in accordance with the parameters of GASB Statement 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Additional information as of the latest actuarial valuation follows:

Valuation Date	6/30/11
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percentage of Pay
Remaining Amortization Period	30 years
Asset Valuation Method	Market Value
Actuarial Assumptions	
Inflation Rate	3.0%
Amortization Period	Open
Investment Rate of Return*	4.5%
Healthcare Cost Trend Rate	9.0% grading down .5% per year over 7 years to 5.5% and in the 8th year increasing to 5.6% - Medical/Rx Initial 8.0% grading down .5% per year over 6 years to 5.0% - Dental Initial 6.0% grading down 3.0% for 1 year to 3.0% - Vision Initial 5.0% Ultimate

* Determined as a blended rate of the expected long-term investment returns on plan assets based upon the funded level of the plan as of the valuation date.

E. Long-Term Obligations

Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2012, were as follows:

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012	Amounts Due Within One Year
Compensated Absences	$6	$9	$9	$6	$0
Total	$6	$9	$9	$6	$0

F. Pension Plan

The vested full-time employees paid from the Community College Health Insurance Security Fund may 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 2012 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2012. 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 2012, the employer contribution rate was 34.19%. Effective for pay periods beginning after December 31, 1991, the State opted to pay the employee portion of retirement for most State agencies (including the Department) with employees covered by the State Employees' and Teachers' Retirement Systems. However, effective with the fiscal year 2004 budget, the State opted to stop paying the portion or a part of the portion of retirement for many State agencies (including the Department) for certain classes of employees covered by the State Employees' and Teachers' Retirement Systems. The pickup, when applicable, is subject to sufficient annual appropriations and those employees covered may vary across employee groups and State agencies.

G. Post-employment Benefits

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

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

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

H. Fund Deficits

For the fiscal year ending June 30, 2012, total benefits and expenses were $48.65 million which were partially financed by $4.40 million in State contributions, $4.27 million in employer contributions, $2.42 million in the federal government Medicare Part D subsidy, $4.27 million in active member contributions, and $14.95 million in retired member contributions, resulting in a net shortfall of approximately $18.33 million or approximately 37.68% of total benefits and expenses.

Because contributions made by the State, employers, and employees are defined as a fixed percentage of payroll, and retired member contributions are subject to a 5.0% per year increase, the funding policy does not provide a provision for adverse experience. The following factors contributed to the fund deficit: total payroll increasing at a rate lower than expected, premium rates increasing by more than 5.0%, overall claim costs increasing at a rate higher than expected, or more retirements occurring than expected. Also, the current financing policy does not provide a specific provision for claims incurred during the fiscal year that are expected to be paid in the following fiscal year.

I. Commitments and Contingencies

The Department is a party to numerous other legal proceedings, many of which normally occur in the course of operations. These proceedings are not, in the opinion of the Department's legal counsel, likely to have a material adverse impact on the Department's financial position. In the event a material action is settled against the Department, such amounts would be paid from future appropriations or by another State agency. Accordingly, no amounts have been provided in the accompanying financial statements related to outstanding litigation.

J. Securities Lending Transactions

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

During fiscal years 2012 and 2011, Deutsche Bank Group lent U.S. Treasury and 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 aggregated 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 fiscal years 2012 and 2011 on the amount of the loans available or the 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 the 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 fiscal years 2012 and 2011 resulting from a default of the borrowers or Deutsche Bank Group.

During fiscal years 2012 and 2011, 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 the 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 the 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 fair value of securities on loan for the State Treasurer as of June 30, 2012 were $4,556,511,251 and $4,551,829,732, respectively. The securities lending collateral invested in repurchase agreements and the fair value of securities on loan for the State Treasurer as of June 30, 2011 were $3,456,373,500 and $3,446,138,880, respectively.

In accordance with GASB Statement No. 28, paragraph 9, the Office of the State Treasurer has allocated the assets and obligations at June 30, 2012 arising from securities lending agreements to the various funds of the State. The total allocated to the Community College Health Insurance Security Fund at June 30, 2012 was $559 thousand.

K. Subsequent Events

Per the Governor's Executive Order 12-01, the Department's respective powers, duties, rights and responsibilities related to the Community College Health Insurance program are transferred to the Department of Central Management Services as of July 1, 2012.

STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES
COMMUNITY COLLEGE HEALTH INSURANCE SECURITY FUND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
(amounts expressed in thousands)
(Unaudited)

Actuarial Valuation Date	**Actuarial Value of Assets (a)**	**Actuarial Accrued Liability (AAL)-- Projected Unit (b)**	**Unfunded AAL (UAAL) (b-a)**	**Funded Ratio (a/b)**	**Covered Payroll (c)**	**UAAL as a Percentage of Covered Payroll ([b-a]/c)**
6/30/2007	$ 9,562	$ 1,846,969	$ 1,837,407	0.52%	$ 740,214	248.23%
6/30/2009	$ 1,446	$ 1,894,272	$ 1,892,826	0.08%	$ 903,257	209.56%
6/30/2011	$ (19,657)	$ 2,053,133	$ 2,072,790	-0.96%	$ 922,823	224.61%

STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES
COMMUNITY COLLEGE HEALTH INSURANCE SECURITY FUND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS FROM EMPLOYERS
AND OTHER CONTRIBUTING ENTITIES
(amounts expressed in thousands)
(Unaudited)

Year Ended June 30	**Annual Required Contribution**	**State Contributions**	**State Percentage Contributed**	**Employer's Contributions**	**Employer's Percentage Contributed**	**Medicare Part D Contributions**	**Medicare Part D Percentage Contributed**
2008	$ 185,683	$ 4,740	2.55%	$ 3,716	2.00%	$ 1,737	0.94%
2009	$ 188,466	$ 3,916	2.08%	$ 3,646	1.93%	$ 2,013	1.07%
2010	$ 196,947	$ 4,059	2.06%	$ 3,966	2.01%	$ 2,267	1.15%
2011	$ 182,236	$ 5,237	2.87%	$ 4,090	2.24%	$ 2,219	1.22%
2012	$ 190,437	$ 4,396	2.31%	$ 4,269	2.24%	$ 2,424	1.27%

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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 Community College Health Insurance Security Fund of the State of Illinois, Department of Healthcare and Family Services, as of and for the year ended June 30, 2012, and have issued our report thereon dated March 29, 2013. 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

Management of the State of Illinois, Department of Healthcare and Family Services is responsible for establishing and maintaining effective 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 of the Community College Health Insurance Security Fund as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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.

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.

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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting of the Community College Health Insurance Security Fund that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Illinois, Department of Healthcare and Family Services' Community College Health Insurance Security Fund 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Bruce L. Bullard

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

March 29, 2013

PRIOR FINDINGS NOT REPEATED

For the Year Ended June 30, 2012

A. **FINDING** (Financial statement preparation)

In the prior year, the Illinois Department of Healthcare and Family Services (Department) did not complete the Community College Health Insurance Security Fund's financial statements in a timely manner. The Department did not provide a complete set of financial statements until January 17, 2012, six and a half months after the fiscal year end.

In the current year, the Department improved the process of financial reporting and completed the Community College Health Insurance Security Fund's financial statements in a timely manner. (Finding Code No. 11-1)