

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

**FINANCIAL AUDIT
For the Year Ended June 30, 2012**

STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES
FINANCIAL AUDIT
For the Year Ended June 30, 2012

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STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES
FINANCIAL AUDIT
For the Year Ended June 30, 2012

AGENCY OFFICIALS

Director	Julie Hamos
Assistant Director	Sharron Matthews
Deputy Directors	
Community Outreach	Peter F. Vina
Administrative Operations	Carolyn Williams Meza (7/1/11-5/31/12) Vacant (6/1/12 – Current)
Human Resources	Richard Foxman
Strategic Planning	Michael Koetting
General Counsel	Jeanette Badrov
Inspector General	John C. Allen (7/1/11-10/31/11) Bradley Hart (11/1/11-Current)
Administrators	
Division of Child Support Services	Pamela Lowry
Division of Finance	Vacant (7/1/11 – 8/31/11) Francis Kopel (9/1/11 – 12/31/12) Vacant (1/1/13 - 2/28/13) Michael Casey (3/1/13 - Current)
Division of Medical Programs	Theresa Eagleson
Division of Personnel and Administrative Services	Theresa Bietsch
Chiefs	
Office of Legislative Affairs	Selma D’Souza
Office of Fiscal Management	Jack Dodds
Office of Healthcare Purchasing	Vacant
Office of Information Services	Vacant (7/1/11 – 9/5/11) Stephen Depooter (9/6/11 – Current)

Department of Healthcare and Family Services offices are located at:

201 South Grand Avenue East
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, 2012

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 material weaknesses or significant deficiencies. The material weakness is described in the accompanying Schedule of Findings on pages 57-58 of this report, as finding 12-1, (Financial statement preparation). The significant deficiency is described in the accompanying Schedule of Findings on pages 59-60 of this report, as finding 12-2, (Lack of written rate-setting methodology).

EXIT CONFERENCE

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

The responses to the recommendations were provided by Julie Hamos, Director, in a letter dated March 29, 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 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, 2012, 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 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 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, 2012, and its changes in its financial position including cash flows, where

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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, 2012, 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 March 29, 2013 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.

Accounting principles generally accepted in the United States of America require that the Defined Benefit Other Postemployment Benefit Plans – Schedule of Funding Progress on page 42 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic 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 and budgetary comparison information for the General Revenue Fund and the Road Fund that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

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 and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the

basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements 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.

A handwritten signature in blue ink that reads "Bruce L. Bullard". The signature is fluid and cursive, with a long horizontal stroke at the end.

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

March 29, 2013

State of Illinois

Department of Healthcare and Family Services

Statement of Net Assets

June 30, 2012 (Expressed in Thousands)

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Unexpended appropriations	\$ 1,028,512	\$ -	\$ 1,028,512
Cash equity with State Treasurer	628,822	5,036	633,858
Cash and cash equivalents	74,866	2,159	77,025
Securities lending collateral equity with State Treasurer	251,962	2,339	254,301
Due from other government - federal	2,085,913	27	2,085,940
Due from other government - local	47,191	147	47,338
Taxes receivable, net	98,242	-	98,242
Other receivables, net	377,695	259	377,954
Internal balances	8	(8)	-
Due from other Department fiduciary funds	11	-	11
Due from other State funds	150,815	-	150,815
Due from State of Illinois component units	30,364	-	30,364
Prepaid expenses	1,228	-	1,228
Capital assets being depreciated, net	683	-	683
Total assets	<u>4,776,312</u>	<u>9,959</u>	<u>4,786,271</u>
LIABILITIES			
Accounts payable and accrued liabilities	4,717,000	6,934	4,723,934
Due to other government - federal	7,326	3	7,329
Due to other government - local	171,985	-	171,985
Due to other State fiduciary funds	1,205	12	1,217
Due to other State funds	74,805	25	74,830
Due to State of Illinois component units	45,169	-	45,169
Unearned revenue	-	47	47
Obligations under securities lending of State Treasurer	251,962	2,339	254,301
Long term obligations:			
Due within one year	1,195	-	1,195
Due subsequent to one year	7,310,739	109	7,310,848
Total liabilities	<u>12,581,386</u>	<u>9,469</u>	<u>12,590,855</u>
NET ASSETS			
Invested in capital assets	683	-	683
Restricted for health and social services	896	-	896
Unrestricted	(7,806,653)	490	(7,806,163)
Total net assets	<u>\$ (7,805,074)</u>	<u>\$ 490</u>	<u>\$ (7,804,584)</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 Activities

For the Year Ended June 30, 2012 (Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenues and Changes in Net Assets		
		Operating Grants and Contributions	Charges for Services	Governmental Activities	Business-type Activities	Total
Primary government						
Governmental activities						
Health and social services	\$ 17,147,512	\$ 8,882,846	\$ 2,362,278	\$ (5,902,388)		\$ (5,902,388)
Education	681,232	-	-	(681,232)		(681,232)
Employment and economic development	50,989	-	-	(50,989)		(50,989)
General government	394,041	-	-	(394,041)		(394,041)
Transportation	290,020	-	-	(290,020)		(290,020)
Public protection and justice	1,010,126	-	-	(1,010,126)		(1,010,126)
Environment and business regulation	95,646	-	-	(95,646)		(95,646)
Total governmental activities	<u>19,669,566</u>	<u>8,882,846</u>	<u>2,362,278</u>	<u>(8,424,442)</u>		<u>(8,424,442)</u>
Business-type activities						
Insurance program	43,742	-	45,773		\$ 2,031	2,031
Total business-type activities	<u>43,742</u>	<u>-</u>	<u>45,773</u>		<u>2,031</u>	<u>2,031</u>
Total primary government	<u>\$ 19,713,308</u>	<u>\$ 8,882,846</u>	<u>\$ 2,408,051</u>			<u>(8,422,411)</u>
General revenues						
Appropriations from State resources				8,640,242	-	8,640,242
Lapsed appropriations				(176,022)	-	(176,022)
Receipts collected and transmitted to State Treasury				(3,973,624)	-	(3,973,624)
Other taxes				1,303,287	-	1,303,287
Interest and investment income				1,880	22	1,902
Other revenues				294,198	107	294,305
Amount of SAMS transfers-in				(80,000)	-	(80,000)
Amount of SAMS transfers-out				190,000	-	190,000
Transfers-in				147,315	-	147,315
Transfers-out				(40,000)	-	(40,000)
Total general revenues and transfers				<u>6,307,276</u>	<u>129</u>	<u>6,307,405</u>
Change in net assets				(2,117,166)	2,160	(2,115,006)
Net assets July 1, 2011, as restated				(5,687,908)	(1,670)	(5,689,578)
Net assets June 30, 2012				<u>\$ (7,805,074)</u>	<u>\$ 490</u>	<u>\$ (7,804,584)</u>

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, 2012 (Expressed in Thousands)

	<u>General Fund</u>	<u>Road Fund</u>	<u>Other Nonmajor Funds</u>	<u>Total</u>
ASSETS				
Unexpended appropriations	\$ 1,028,291	\$ -	\$ 221	\$ 1,028,512
Cash equity with State Treasurer	485,184	-	36,662	521,846
Cash and cash equivalents	14,254	-	-	14,254
Securities lending collateral equity with State Treasurer	165,767	-	411	166,178
Due from other government - federal	2,056,790	-	19,290	2,076,080
Due from other government - local	47,191	-	-	47,191
Taxes receivable, net	98,242	-	-	98,242
Other receivables, net	344,260	-	10,967	355,227
Due from other State funds	141,779	-	491	142,270
Total assets	<u>\$ 4,381,758</u>	<u>\$ -</u>	<u>\$ 68,042</u>	<u>\$ 4,449,800</u>
LIABILITIES				
Accounts payable and accrued liabilities	\$ 3,273,418	\$ -	\$ 6,018	\$ 3,279,436
Due to other government - federal	458	-	6,857	7,315
Due to other government - local	165,859	-	6,126	171,985
Due to other State fiduciary funds	280	-	877	1,157
Due to other Department funds	1,135,801	63,316	805	1,199,922
Due to other State funds	69,317	-	4,719	74,036
Due to State of Illinois component units	44,432	-	737	45,169
Unavailable revenues	1,386,358	-	494	1,386,852
Obligations under securities lending of State Treasurer	165,767	-	411	166,178
Total liabilities	<u>6,241,690</u>	<u>63,316</u>	<u>27,044</u>	<u>6,332,050</u>
FUND BALANCES (DEFICITS)				
Nonspendable	-	-	-	-
Restricted - Health and Welfare	896	-	-	896
Committed - Health and Welfare	655,043	-	40,895	695,938
Assigned	-	-	-	-
Unassigned	(2,515,871)	(63,316)	103	(2,579,084)
Total fund balances (deficits)	<u>(1,859,932)</u>	<u>(63,316)</u>	<u>40,998</u>	<u>(1,882,250)</u>
Total liabilities and fund balances	<u>\$ 4,381,758</u>	<u>\$ -</u>	<u>\$ 68,042</u>	<u>\$ 4,449,800</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, 2012
(Expressed in Thousands)

Total fund balances-governmental funds \$ (1,882,250)

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. 676

Prepaid expenses for governmental activities are current uses
of financial resources for funds. 1,228

Revenues in the Statement of Activities that do not provide
current financial resources are deferred in the funds. 1,386,852

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	(11,501)	
Net other postemployment benefit obligations	<u>(7,300,079)</u>	<u>(7,311,580)</u>

Net assets of governmental activities \$ (7,805,074)

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, 2012 (Expressed in Thousands)

	<u>General Fund</u>	<u>Road Fund</u>	<u>Other Nonmajor Funds</u>	<u>Total</u>
REVENUES				
Operating grants - federal	\$ 7,117,238	\$ -	\$ 211,965	\$ 7,329,203
Other operating grants	775,559	-	-	775,559
Licenses and fees	19,412	-	1,336	20,748
Other charges for services	-	-	18,954	18,954
Interest and other investment income	1,451	-	1	1,452
Other taxes	1,213,075	-	-	1,213,075
Other	256,224	-	-	256,224
Total revenues	<u>9,382,959</u>	<u>-</u>	<u>232,256</u>	<u>9,615,215</u>
EXPENDITURES				
Health and social services	14,091,557	-	375,940	14,467,497
Education	(9,778)	-	-	(9,778)
Employment and economic development	14,876	-	-	14,876
General government	236,016	-	-	236,016
Transportation	(1,518)	174,366	-	172,848
Public protection and justice	701,726	-	-	701,726
Environment and business regulation	25,870	-	-	25,870
Capital outlays	22	-	122	144
Total expenditures	<u>15,058,771</u>	<u>174,366</u>	<u>376,062</u>	<u>15,609,199</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(5,675,812)</u>	<u>(174,366)</u>	<u>(143,806)</u>	<u>(5,993,984)</u>
OTHER SOURCES (USES) OF FINANCIAL RESOURCES				
Appropriations from State resources	8,274,348	165,294	200,600	8,640,242
Lapsed appropriations	(176,009)	-	(13)	(176,022)
Receipts collected and transmitted to State Treasury	(3,879,995)	-	(93,629)	(3,973,624)
Amount of SAMS transfers-in	(80,000)	-	-	(80,000)
Amount of SAMS transfers-out	190,000	-	-	190,000
Transfers-in	147,315	-	30,839	178,154
Transfers-out	(70,839)	-	-	(70,839)
Net other sources (uses) of financial resources	<u>4,404,820</u>	<u>165,294</u>	<u>137,797</u>	<u>4,707,911</u>
Net change in fund balances	(1,270,992)	(9,072)	(6,009)	(1,286,073)
Fund balances (deficits), July 1, 2011	<u>(588,940)</u>	<u>(54,244)</u>	<u>47,007</u>	<u>(596,177)</u>
FUND BALANCES (DEFICITS), JUNE 30, 2012	<u>\$ (1,859,932)</u>	<u>\$ (63,316)</u>	<u>\$ 40,998</u>	<u>\$ (1,882,250)</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, 2012
(Expressed in Thousands)

Net change in fund balances \$ (1,286,073)

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

Governmental funds report capital outlays as expenditures while governmental activities report depreciation 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. (428)

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. (12,956)

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. 867,380

Some capital assets were transferred out to other State agencies and, therefore, no proceeds were received for the capital asset's value. -

Loss from disposal of capital assets. This is the book value of capital assets, which were disposed of. (1)

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.

Decrease in compensated absences obligation	966	
Increase in net other postemployment benefit obligations	<u>(1,686,054)</u>	<u>(1,685,088)</u>

Change in net assets of governmental activities \$ (2,117,166)

State of Illinois
Department of Healthcare and Family Services

**Statement of Net Assets -
Proprietary Funds**

June 30, 2012 (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	\$ 5,036	\$ 106,976
Cash and cash equivalents	2,159	60,612
Securities lending collateral equity with State Treasurer	2,339	85,784
Due from other government - federal	27	9,833
Due from other government - local	147	-
Other receivables, net	259	22,468
Due from other Department fiduciary funds	-	11
Due from other Department funds	-	1,199,930
Due from other State funds	-	8,545
Due from State of Illinois component units	-	30,364
Total current assets	9,967	1,524,523
Capital assets being depreciated, net	-	7
Total assets	9,967	1,524,530
LIABILITIES		
Accounts payable and accrued liabilities	6,934	1,437,564
Due to other government - federal	3	11
Due to other State fiduciary funds	12	48
Due to other Department funds	8	-
Due to other State funds	25	769
Unearned Revenue	47	-
Obligations under securities lending of State Treasurer	2,339	85,784
Current portion of long-term obligations	-	28
Total current liabilities	9,368	1,524,204
Noncurrent portion of long-term obligations	109	326
Total liabilities	9,477	1,524,530
NET ASSETS		
Invested in capital assets	-	7
Unrestricted	490	(7)
Total net assets	\$ 490	\$ -

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, 2012 (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	\$ 45,773	\$ 2,376,895
Federal Government, operating	-	701
Total operating revenues	45,773	2,377,596
OPERATING EXPENSES		
Benefit payments and refunds	41,189	2,221,064
Interest expense	175	110,718
General and administrative	2,378	84,214
Depreciation	-	3
Total operating expenses	43,742	2,415,999
Operating income (loss)	2,031	(38,403)
NONOPERATING REVENUES (EXPENSES)		
Interest and investment income	22	428
Other revenues	107	37,975
Changes in net assets	2,160	-
Net assets, July 1, 2011	(1,670)	-
NET ASSETS, JUNE 30, 2012	\$ 490	\$ -

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, 2012 (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	\$ 45,760	\$ 122,993
Cash received from transactions with other funds	-	2,290,449
Cash payments to suppliers for goods and services	(43,684)	(2,399,740)
Cash payments to employees for services	(1,223)	(5,430)
Cash receipts from other operating activities	827	47,798
Net cash provided (used) by operating activities	<u>1,680</u>	<u>56,070</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating grants received	106	37,890
Net cash provided (used) by noncapital financing activities	<u>106</u>	<u>37,890</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	-	-
Net cash (used) by capital and related financing activities	<u>-</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends on investments	21	390
Net cash provided (used) by investing activities	<u>21</u>	<u>390</u>
Net increase (decrease) in cash and cash equivalents	1,807	94,350
Cash and cash equivalents, July 1, 2011	<u>5,388</u>	<u>73,238</u>
CASH AND CASH EQUIVALENTS, JUNE 30, 2012	<u>\$ 7,195</u>	<u>\$ 167,588</u>
Reconciliation of cash and cash equivalents to the Statement of Net Assets:		
Total cash and cash equivalents per the Statement of Net Assets	\$ 2,159	\$ 60,612
Add: cash equity with State Treasurer	5,036	106,976
CASH AND CASH EQUIVALENTS, JUNE 30, 2012	<u>\$ 7,195</u>	<u>\$ 167,588</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
OPERATING INCOME (LOSS)	<u>\$ 2,031</u>	<u>\$ (38,403)</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	-	3
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(36)	(3,378)
(Increase) decrease in intergovernmental receivables	(18)	(701)
(Increase) decrease in due from other funds	-	33,659
(Increase) decrease in due from State of Illinois component units	-	2,930
Increase (decrease) in accounts payable and accrued liabilities	(313)	62,489
Increase (decrease) in intergovernmental payables	1	1
Increase (decrease) in due to other funds	(3)	(343)
Increase (decrease) in deferred revenues	4	(16)
Increase (decrease) in other liabilities	14	(171)
Total adjustments	<u>(351)</u>	<u>94,473</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 1,680</u>	<u>\$ 56,070</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 -
 Fiduciary Funds**

June 30, 2012 (Expressed in Thousands)

	Pension (and Other Employee Benefit) Trust Funds	Agency Funds
ASSETS		
Cash equity with State Treasurer	\$ 39,846	\$ 16,183
Cash and cash equivalents	14,685	3,976
Securities lending collateral equity with State Treasurer	11,884	-
Receivables, net:		
Federal government	6,425	-
Employee	4,876	-
Employer	3,715	-
Interest and investment income	8	-
Other	10,012	214,272
Due from other State funds	58,895	-
Total assets	150,346	\$ 234,431
LIABILITIES		
Accounts payable and accrued liabilities	207,391	21,816
Intergovernmental payables	3	-
Due to other State fiduciary funds	14	-
Due to other Department funds	11	-
Due to other State funds	132	-
Obligations under securities lending of State Treasurer	11,884	-
Other liabilities	-	212,615
Long term obligations:		
Due within one year	5	-
Due subsequent to one year	88	-
Total liabilities	219,528	\$ 234,431
NET ASSETS HELD IN TRUST FOR PENSION AND OTHER EMPLOYEE BENEFITS	\$ (69,182)	

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, 2012 (Expressed in Thousands)

	Pension (and Other Employee Benefit) Trust Funds
ADDITIONS	
Contributions:	
Employer	\$ 75,645
State	92,018
Plan members:	
Active	99,540
Retiree	180,604
Terminated employees (COBRA)	119
Federal Medicare Part D	27,335
Total contributions	<u>475,261</u>
Investment Income:	
Interest and other investment income	<u>137</u>
Net investment income	<u>137</u>
Total additions	<u>475,398</u>
DEDUCTIONS	
Benefit payments and refunds	526,313
General and administration	<u>5,735</u>
Total deductions	<u>532,048</u>
Net additions (deductions)	(56,650)
Net assets held in trust for pension and other employee benefits, July 1, 2011	<u>(12,532)</u>
NET ASSETS HELD IN TRUST FOR PENSION AND OTHER EMPLOYEE BENEFITS, June 30, 2012	<u><u>\$ (69,182)</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

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June 30, 2012

(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

STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES

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the Department. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2012, 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 Healthcare Provider Relief) and thirteen secondary sub-accounts.

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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.

Additionally, the Department reports the following fund types:

Governmental Fund Types:

Special Revenue – These funds account for transactions related to resources obtained from specific revenue sources that are restricted or committed to expenditures for specific purposes other than debt service or capital projects.

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

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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 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 for Persons with Developmental Disabilities, and Trauma Center Accounts of the General Fund, the Road Fund, the Department of Corrections Reimbursement 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.

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Amount of SAMS Transfers-In

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

Amount of SAMS Transfers-Out

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

(e) Eliminations

Eliminations have been made in the government-wide statement of net assets to minimize the “grossing-up” effect on assets and liabilities within the governmental activities column of the Department. As a result, amounts reported in the governmental funds balance sheet as interdepartmental interfund receivables and payables have been eliminated in the government-wide statement of net assets. Amounts reported in the governmental funds balance sheet and proprietary 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

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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.

(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 fund balances in the following categories:

Nonspendable- This consists of amounts that cannot be spent because they are either a) not in spendable form or b) legally or contractually required to be maintained intact.

Restricted- This consists of amounts that are restricted to specific purposes, that is, when constraints placed on the use of resources are either: a) externally imposed by creditors, grantors, contributors, or

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laws or regulations of other governments or b) imposed by law through constitutional provisions or enabling legislation.

Committed- This consists of amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Department's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the Department removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. The Department's highest level of decision-making authority rests with the Illinois State legislature and the Governor. The State passes "Public Acts", to commit their fund balances.

Assigned- This consists of net amounts that are constrained by the Department's intent to be used for specific purposes, but that are neither restricted nor committed.

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

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

In other governmental funds (special revenue), it is the Department's policy to consider restricted resources to have been spent last. When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, the Department first utilizes any assigned amounts, followed by committed and then restricted amounts.

(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.

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.

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(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) Future Adoption of GASB Statements

Effective for the year ending June 30, 2013, the Department will adopt GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*, which the objective is to improve financial reporting for a governmental financial reporting entity. The Department has not yet determined the impact on the Department's financial statements as a result of adopting this statement.

Effective for the year ending June 30, 2013, the Department will adopt GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which the objective is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: (1) Financial Accounting Standards Board (FASB) Statements and Interpretations, (2) Accounting Principles Board Opinions, and (3) Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

Effective for the year ending June 30, 2013, the Department will adopt GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The Department has not yet determined the impact on the Department's financial statements as a result of adopting this statement.

Effective for the year ending June 30, 2014, the Department will adopt GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. 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

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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 \$17 thousand, \$17 thousand, and \$1 thousand, respectively, at June 30, 2012.

(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, 2012, 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	\$ 76,991	0.069
Total fixed income investments	\$ 76,991	
<i>Fiduciary Funds</i>		
Repurchase agreements	\$ 13,892	0.003
Illinois Public Treasurer's Investment Pool	14,684	0.069
Total fixed income investments	\$ 28,576	

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 were rated AAAM by Standard & Poor's.

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(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>
Amount Per Note	\$ 34	\$ 76,991
Cash Equivalents	76,991	(76,991)
Amounts Per Statement of Net Assets	<u>\$ 77,025</u>	<u>\$ -</u>
<i>Fiduciary Funds</i>	<u>Deposits</u>	<u>Investments</u>
Amount Per Note	\$ 1	\$ 28,576
Cash Equivalents	28,576	(28,576)
Outstanding checks	(9,916)	-
Amounts Per Statement of Fiduciary Net Assets	<u>\$ 18,661</u>	<u>\$ -</u>

(4) Accounts Receivable

(a) Taxes Receivable

Taxes receivable (amounts expressed in thousands) at June 30, 2012 are as follows:

	<u>General Fund</u>
Taxes receivable	\$ 103,309
Less: allowance for uncollectible taxes	(5,067)
Taxes receivable, net	<u>\$ 98,242</u>

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(b) Other Receivables

Other receivables (amounts expressed in thousands) at June 30, 2012 are as follows:

	General Fund	Nonmajor Governmental Funds	Nonmajor Proprietary Fund	Internal Service Fund	Fiduciary Funds
Other receivables	\$431,676	\$ 735,872	\$ 259	\$22,468	\$4,118,779
Less: allowance for uncollectible accounts	(87,416)	(724,905)	-	-	(3,894,495)
Other receivables, net	\$344,260	\$ 10,967	\$ 259	\$22,468	\$ 224,284

(5) Interfund Balances and Activity

(a) Balances due to/from Other Funds

The following balances (amounts expressed in thousands) at June 30, 2012 represent amounts due from Department funds and other State funds.

Fund	Due from			Description/Purpose
	Other Department Funds	Other State Funds	Other Department Fiduciary Funds	
General	\$ -	\$ 141,779	\$ -	Due from other State funds for subgrants received.
Nonmajor governmental funds	-	491	-	Due from other State funds for unexpended subgrants made.
Internal service fund	1,199,930	8,545	11	Due from other funds for insurance benefits.
Fiduciary funds	-	58,895	-	Due from General Funds appropriations for insurance benefits.
	\$ 1,199,930	\$ 209,710	\$ 11	

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The following balances (amounts expressed in thousands) at June 30, 2012 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.

Fund	Due to		
	Other Department Funds	Other State Funds	Other State Fiduciary Funds
General	\$ 1,135,801	\$ 69,317	\$ 280
Road fund	63,316	-	-
Nonmajor governmental funds	805	4,719	877
Nonmajor proprietary funds	8	25	12
Internal service fund	-	769	48
Fiduciary funds	11	132	14
	\$ 1,199,941	\$ 74,962	\$ 1,231

(b) Transfers to/from Other Funds

Interfund transfers in (amounts expressed in thousands) for the year ended June 30, 2012 were as follows:

Fund	Transfers in from		Description/Purpose
	Other Department Funds	Other State Funds	
General	\$ -	\$ 147,315	Transfer from General Fund
Nonmajor governmental funds	30,839	-	Transfer from General Fund per State appropriation.
	\$ 30,839	\$ 147,315	

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Interfund transfers out (amounts expressed in thousands) for the year ended June 30, 2012, were as follows:

Transfers out to			
Fund	Other Department Funds	Other State Funds	Description/Purpose
General	\$ 30,839	\$ 40,000	Transfers to Department nonmajor governmental funds per State appropriation.
	\$ 30,839	\$ 40,000	

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

The following balances (amounts expressed in thousands) at June 30, 2012 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
Il State Toll Highway Authority	\$ 2,743
Chicago State University	54
Eastern Illinois University	478
Governors State University	441
Northeastern Illinois University	64
Western Illinois University	354
Illinois State University	257
Northern Illinois University	2,360
Southern Illinois University	722
University of Illinois	22,891
	\$ 30,364

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The following balances (amounts expressed in thousands) at June 30, 2012 represent amounts due to State of Illinois Component Units for medical reimbursements.

	Due to	
Fund	General Fund	Nonmajor Governmental Funds
Northeastern Illinois University	\$ 9	\$ -
Illinois State University	3	-
Northern Illinois University	41	-
Southern Illinois University	27	-
University of Illinois	44,352	737
	\$ 44,432	\$ 737

(6) Capital Assets

Capital asset activity (amounts expressed in thousands) for the year ended June 30, 2012 is as follows:

	Balance July 1, 2011	Additions	Deletions	Net Transfers	Balance June 30, 2012
Governmental Activities:					
Capital assets being depreciated:					
Equipment	\$ 7,065	\$ 144	\$ 73	\$ -	\$ 7,136
Non-internally generated software	25	-	-	-	25
Less accumulated depreciation:					
Equipment	5,950	575	72	-	6,453
Non-internally generated software	25	-	-	-	25
Total capital assets being depreciated, net	1,115	(431)	1	-	683
Governmental activity capital assets, net	\$ 1,115	\$ (431)	\$ 1	\$ -	\$ 683

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Depreciation expense for governmental activities (amounts expressed in thousands) for the year ended June 30, 2012 was charged as follows:

Health and social services \$ 575

	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Net Transfers</u>	<u>Balance June 30, 2012</u>
Business-type Activities:					
Capital assets being depreciated: Equipment	\$ 9	\$ -	\$ -	\$ -	\$ 9
Less accumulated depreciation: Equipment	<u>9</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9</u>
Business-type activity capital assets, net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

(7) Long-Term Obligations

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

	<u>Balance July 1, 2011 as restated</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2012</u>	<u>Amounts Due Within One Year</u>
Governmental activities:					
Compensated Absences	\$ 12,836	\$ 12,427	\$ 13,408	\$ 11,855	\$ 1,195
Worker's Compensation	171	14,860	15,031	-	-
Net other postemployment benefit obligations	<u>5,614,025</u>	<u>1,686,054</u>	<u>-</u>	<u>7,300,079</u>	<u>-</u>
Total governmental activities	<u>\$ 5,627,032</u>	<u>\$ 1,713,341</u>	<u>\$ 28,439</u>	<u>\$ 7,311,934</u>	<u>\$ 1,195</u>
Business-type activities:					
Compensated Absences	\$ 95	\$ 73	\$ 59	\$ 109	\$ -
Total business-type activities	<u>\$ 95</u>	<u>\$ 73</u>	<u>\$ 59</u>	<u>\$ 109</u>	<u>\$ -</u>
Fiduciary funds:					
Compensated Absences	\$ 103	\$ 74	\$ 84	\$ 93	\$ -
Total fiduciary funds	<u>\$ 103</u>	<u>\$ 74</u>	<u>\$ 84</u>	<u>\$ 93</u>	<u>\$ -</u>

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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 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 34.190%. 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.

(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.

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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 2012, the annual cost of the basic program of group health, dental, and vision benefits before the State's contribution was \$7,538.40 (\$3,948.72 if Medicare eligible) if the annuitant chose benefits provided by a health maintenance organization and \$10,697.04 (\$4,483.44 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.

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:

Annual Employee Health, Dental, and Vision Contribution Requirements		
Employee Annual Salary	Benefits Through a Health Maintenance Organization	Benefits Provided Through Other Than a Health Maintenance Organization
\$30,200 and below	\$696	\$996
\$30,201 - \$45,600	\$756	\$1,056
\$45,601 - \$60,700	\$786	\$1,086
\$60,701 - \$75,900	\$816	\$1,116
\$75,901 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")	\$ 2,396,735
Plus: interest on net other postemployment benefit obligation ("NOPEBO")	257,236
Adjustment to the ARC	(190,545)
Annual other postemployment benefits cost	<u>2,463,426</u>
Benefits paid during the year	<u>(777,372)</u>
Increase in NOPEBO	1,686,054
NOPEBO at June 30, 2011, as restated	<u>5,614,025</u>
NOPEBO at June 30, 2012	<u><u>\$ 7,300,079</u></u>

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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:

	6/30/2012
Annual Other Postemployment Benefit Cost	
6/30/2010	\$ 1,936,287
6/30/2011	\$ 2,338,779
6/30/2012	\$ 2,463,426
% of AOPEBC Contributed	
6/30/2010	27.46%
6/30/2011	21.43%
6/30/2012	31.56%
Net Other Postemployment Benefit Obligation	
6/30/2010	\$ 3,878,792
6/30/2011, as restated	\$ 5,614,025
6/30/2012	\$ 7,300,079

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)	UAAAL as a Percentage of Covered Payroll (c/e)
6/30/2011	\$ -	\$ 33,295,354	\$ 33,295,354	0.0%	\$ 7,375,559	451.43%

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.

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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	6/30/2011
Actuarial valuation date of the unfunded actuarial accrued liability	6/30/2011
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*	4.50%
Projected salary increases*	4.50%
Inflation Rate	3.00%
Healthcare cost trend rate:	
Medical	9.0% grading down .5% per year over 6 years to 6.0% and grading down to 5.6% in year 7 and 8
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 Community College Health Insurance Security Fund, the Teacher Health Insurance Security Fund, and the Road Fund had deficit fund balances at June 30, 2012 of \$1.860 billion, \$37.986 million, \$31.196 million, and \$63.316 million, respectively. The General Fund deficit results from the liabilities of the Medicaid program recognized at June 30, 2012 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 and the Teacher 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.

(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

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Notes to the Financial Statements

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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 \$666.536 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, 2011 and 2012.

Year Ended June 30	Beginning Balance	Claims Incurred	Decreases	Ending Balance
2011	\$ 486,301	\$ 694,125	\$ 561,635	\$ 618,791
2012	\$ 618,791	\$ 754,522	\$ 706,777	\$ 666,536

(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, 2012, there were 370 local governmental entities participating with approximately 3,195 employees, 2,087 dependents and 202 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 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 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 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, 2012.

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, 2012, 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, 2012 is as follows:

Claims incurred and reported but not paid as of June 30	\$ 4,672
Estimated liability for claims incurred but not reported	<u>2,087</u>
Total estimated liability for future claims	<u><u>\$ 6,759</u></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	\$ 41,580
Less: Liability for unpaid claims, beginning of year	<u>7,150</u>
Subtotal	34,430
Add: Liability for unpaid claims, end of year	<u>6,759</u>
Total benefit claim payments and refunds	<u><u>\$ 41,189</u></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 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.

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(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, 2012, there were 1,002 school districts participating with approximately 61,787 annuitants and 10,537 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 0.88 percent contribution from active teachers and 0.66 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, 2012, there were 38 community colleges and 1 community college association participating with approximately 5,659 annuitants and 880 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

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

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Notes to the Financial Statements

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(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 \$5.013 million for the year ended June 30, 2012.

(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, 2012, 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 class action lawsuit existed at June 30, 2012, consisting of all past, present, and future participants in the Medically Fragile and Technology Dependant (MFTD) Medicaid Waiver for Children. The suit seeks to not have the individual's services reduced solely because the individual "ages-out" of the waiver at 21 upon being referred to a program with different service levels than the MFTD.

A class action lawsuit remains pending on June 30, 2012. This is a class action brought on behalf of Medicaid-eligible individuals with disabilities who allegedly want to live in the community, but claim they are required to reside in skilled nursing facilities in Cook County as a condition of receiving services. Among other things, Plaintiffs seek that Defendants provide long term care services and support in the community rather than in institutional settings.

A class action lawsuit existed at June 30, 2012. This is a putative class action consisting of MFTD waiver participants or who receive Medicaid Private Duty Nursing Services for children but do not meet the institutional level of care to qualify for MFTD services. The suit alleges that family income caps, cost sharing and proposed changes to the MFTD waiver's level of care pursuant to the requirements of the SMART Act violate Title XIX of the Social Security Act and may cause them to be unnecessarily institutionalized in violation of *Olmstead*. The suit seeks to prevent implementation of the restructured MFTD program provisions authorized by SMART.

A lawsuit existed at June 30, 2012. This lawsuit seeks class certification for "all recipients of Medicaid in the State of Illinois with behavioral or emotional disorders under the age of twenty-one who are not receiving medically necessary home and community-based services to treat or ameliorate their disorders, and are currently segregated, or who have been segregated or at risk of segregation for the purpose of receiving treatment and services and who would not oppose community services." The Plaintiffs explicitly seek to require the provision of appropriate services and support to qualified persons in the community. It may also seek to require residential treatment of children in Psychiatric Residential Treatment Facilities (PRTFs) under EPSDT.

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Notes to the Financial Statements

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(15) 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 year 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 the 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 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 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 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 was \$3,456,373,500 and \$3,446,138,800, 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 Department at June 30, 2012 was \$254,301 thousand for governmental and business type activities and \$11,884 thousand for fiduciary funds.

(16) Subsequent Event

Public Act 97-0695, which is effective July 1, 2012, eliminates language in the State Employee Group Insurance Act that provides that the State shall pay 5% of the cost of the "basic program of group insurance benefits" for each year of service credit. It leaves the authority to determine the amount of the State subsidy to the Director of the Illinois Department of Central Management Services (CMS), who is supposed to consider factors such as the amount of the pension, years of service at retirement, and age at retirement in determining the retiree share of the cost, on a sliding scale.

The details of future retiree health insurance premiums are currently the subject of collective bargaining with unions representing State employees. The Public Act specifies the remainder of the cost of coverage, as determined by the Director of CMS, will be the responsibility of the retiree or survivor. CMS must require the health insurance contributions of annuitants and survivors of all State retirement systems to be based on the

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same formula and the contribution may be based on Medicare eligibility, but not coordination with Social Security coverage.

Until implementation of the Public Act, for retirees of the State Employees' Retirement System (SERS), State University Retirement System (SURS) and state educators who participated in the Teachers' Retirement System (TRS), the State continues the current policy of paying 5% of the costs of the "basic program of group health benefits" for each year of service.

(17) Restatement

The Department's financial statements have been restated as of July 1, 2011. The restatement is a result of the NOPEBO liability being overstated due to an error in calculation (amounts expressed in thousands).

	<u>Governmental Activities</u>
Net Assets, June 30, 2011, as previously reported	\$ (5,790,240)
Overstatement of NOPEBO liability	<u>102,332</u>
Net Assets, June 30, 2011, as restated	<u><u>\$ (5,687,908)</u></u>

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

Required Supplementary Information

June 30, 2012

**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 three most recent actuarial valuations.

	(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)
6/30/2007	\$ -	\$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%
6/30/2011	\$ -	\$33,295,354	\$33,295,354	0.0%	\$7,375,559	451.4%

State of Illinois

Department of Healthcare and Family Services

Combining Schedule of Accounts -

General Fund

June 30, 2012 (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	Trauma Center 0397
ASSETS								
Unexpended appropriations	\$ 1,025,441	\$ -	\$ -	\$ 6	\$ -	\$ -	\$ -	\$ 2,844
Cash equity with State Treasurer	687	11,980	1,289	-	129,254	140,866	137	-
Cash and cash equivalents	14,254	-	-	-	-	-	-	-
Securities lending collateral equity with State Treasurer	-	-	1,094	-	27,200	66,195	-	-
Due from other government - federal	1,372,401	16,687	47,007	13,005	225,458	-	40,989	1,396
Due from other government - local	-	-	47,141	-	10	-	40	-
Taxes receivable, net	-	-	-	243	97,138	861	-	-
Other receivables, net	1,793	-	1	-	19	46	-	-
Due from other Department funds	67,465	60,000	-	-	-	-	-	-
Due from other State funds	47	-	-	-	29	-	-	-
Total assets	\$ 2,482,088	\$ 88,667	\$ 96,532	\$ 13,254	\$ 479,108	\$ 207,968	\$ 41,166	\$ 4,240
LIABILITIES								
Accounts payable and accrued liabilities	\$ 2,306,522	\$ -	\$ 28	\$ 4	\$ 438,398	\$ -	\$ -	\$ 2,844
Due to other government - federal	396	-	2	-	2	-	-	-
Due to other government - local	8,409	-	95,390	-	13,485	-	41,166	-
Due to other State fiduciary funds	1	-	10	1	10	-	-	-
Due to other Department fiduciary funds	-	-	-	-	-	-	-	-
Due to other Department funds	1,387,240	-	8	1	12	-	-	-
Due to other State funds	65,756	-	-	-	1	-	-	-
Due to State of Illinois component units	12,949	30,024	-	-	-	-	-	-
Unavailable revenues	865,094	2,971	72,443	13,058	206,919	861	-	-
Obligations under securities lending of State Treasurer	-	-	1,094	-	27,200	66,195	-	-
Total liabilities	4,646,367	32,995	168,975	13,064	686,027	67,056	41,166	2,844
FUND BALANCES (DEFICITS)								
Nonspendable	-	-	-	-	-	-	-	-
Restricted - Health and Welfare	-	-	-	-	-	-	-	-
Committed - Health and Welfare	-	55,672	-	190	-	-	-	-
Assigned	-	-	-	-	-	-	-	-
Unassigned	(2,164,279)	-	(72,443)	-	(206,919)	140,912	-	1,396
Total fund balances (deficits)	(2,164,279)	55,672	(72,443)	190	(206,919)	140,912	-	1,396
Total liabilities and fund balances (deficits)	\$ 2,482,088	\$ 88,667	\$ 96,532	\$ 13,254	\$ 479,108	\$ 207,968	\$ 41,166	\$ 4,240

State of Illinois

Department of Healthcare and Family Services

**Combining Schedule of Accounts -
General Fund**

June 30, 2012 (Expressed in Thousands)

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	Public Assistance Recoveries Trust 0421	Medical Research and Development 0486	Post- Tertiary Clinical Services 0487	Electronic Health Record Incentive 0503	Juvenile Rehab Services Medicaid Matching 0575	Medical Interagency Program 0720	Drug Rebate 0728	Independent Academic Medical Center 0735
ASSETS								
Unexpended appropriations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cash equity with State Treasurer	78,169	2	2	-	42	9,949	92,823	-
Cash and cash equivalents	-	-	-	-	-	-	-	-
Securities lending collateral equity with State Treasurer	-	-	-	-	-	3,850	42,996	-
Due from other government - federal	7,843	-	-	108,264	280	5,276	39,919	-
Due from other government - local	-	-	-	-	-	-	-	-
Taxes receivable, net	-	-	-	-	-	-	-	-
Other receivables, net	339,391	-	-	-	-	3	2,374	-
Due from other Department funds	4,939	-	-	-	167	15,832	319,053	-
Due from other State funds	-	-	-	-	-	1,311	-	-
Total assets	\$ 430,342	\$ 2	\$ 2	\$ 108,264	\$ 489	\$ 36,221	\$ 497,165	\$ -
LIABILITIES								
Accounts payable and accrued liabilities	\$ 4,705	\$ -	\$ -	\$ 108,264	\$ -	\$ 10,443	\$ 85,699	\$ -
Due to other government - federal	52	-	-	-	-	-	-	-
Due to other government - local	6,854	-	-	-	489	-	-	-
Due to other State fiduciary funds	244	-	-	-	-	-	-	-
Due to other Department fiduciary funds	-	-	-	-	-	-	-	-
Due to other Department funds	413,891	-	-	-	-	-	-	-
Due to other State funds	3,555	-	-	-	-	-	-	-
Due to State of Illinois component units	1,041	-	-	-	-	288	-	-
Unavailable revenues	-	-	-	95,480	262	1,625	-	-
Obligations under securities lending of State Treasurer	-	-	-	-	-	3,850	42,996	-
Total liabilities	430,342	-	-	203,744	751	16,206	128,695	-
FUND BALANCES (DEFICITS)								
Nonspendable	-	-	-	-	-	-	-	-
Restricted - Health and Welfare	-	-	-	-	-	-	-	-
Committed - Health and Welfare	-	-	-	-	-	20,015	368,470	-
Assigned	-	-	-	-	-	-	-	-
Unassigned	-	2	2	(95,480)	(262)	-	-	-
Total fund balances (deficits)	-	2	2	(95,480)	(262)	20,015	368,470	-
Total liabilities and fund balances (deficits)	\$ 430,342	\$ 2	\$ 2	\$ 108,264	\$ 489	\$ 36,221	\$ 497,165	\$ -

State of Illinois

Department of Healthcare and Family Services

**Combining Schedule of Accounts -
General Fund**

June 30, 2012 (Expressed in Thousands)

	Medicaid Buy-in Program Revolving 0740	FY12 Hospital Relief 0748	Healthcare Provider Relief 0793	Medical Special Purpose Trust 0808	Eliminations	Total
ASSETS						
Unexpended appropriations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,028,291
Cash equity with State Treasurer	1,134	-	3,409	15,441	-	485,184
Cash and cash equivalents	-	-	-	-	-	14,254
Securities lending collateral equity with State Treasurer	514	-	23,918	-	-	165,767
Due from other government - federal	-	127,226	50,602	437	-	2,056,790
Due from other government - local	-	-	-	-	-	47,191
Taxes receivable, net	-	-	-	-	-	98,242
Other receivables, net	70	-	563	-	-	344,260
Due from other Department funds	-	-	197,588	315	(665,359)	-
Due from other State funds	319	140,000	-	73	-	141,779
Total assets	\$ 2,037	\$ 267,226	\$ 276,080	\$ 16,266	\$ (665,359)	\$ 4,381,758
LIABILITIES						
Accounts payable and accrued liabilities	\$ 9	\$ 258,800	\$ 56,173	\$ 1,529	\$ -	\$ 3,273,418
Due to other government - federal	1	-	-	5	-	458
Due to other government - local	-	-	66	-	-	165,859
Due to other State fiduciary funds	3	-	-	11	-	280
Due to other Department fiduciary funds	-	-	-	-	-	-
Due to other Department funds	2	-	-	6	(665,359)	1,135,801
Due to other State funds	-	-	2	3	-	69,317
Due to State of Illinois component units	-	-	105	25	-	44,432
Unavailable revenues	8	127,226	115	296	-	1,386,358
Obligations under securities lending of State Treasurer	514	-	23,918	-	-	165,767
Total liabilities	537	386,026	80,379	1,875	(665,359)	6,241,690
FUND BALANCES (DEFICITS)						
Nonspendable	-	-	-	-	-	-
Restricted - Health and Welfare	-	-	-	896	-	896
Committed - Health and Welfare	1,500	-	195,701	13,495	-	655,043
Assigned	-	-	-	-	-	-
Unassigned	-	(118,800)	-	-	-	(2,515,871)
Total fund balances (deficits)	1,500	(118,800)	195,701	14,391	-	(1,859,932)
Total liabilities and fund balances (deficits)	\$ 2,037	\$ 267,226	\$ 276,080	\$ 16,266	\$ (665,359)	\$ 4,381,758

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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, 2012 (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	Trauma Center 0397
REVENUES								
Operating grants - federal	\$ 3,932,162	\$ 107,647	\$ 717,405	\$ 23,531	\$ 325,920	\$ 756,847	\$ 204,230	\$ 5,599
Other operating grants	-	45,000	722,495	-	-	-	-	-
Licenses and fees	18,707	-	-	-	-	-	-	-
Other charges for services	-	-	-	-	-	-	-	-
Interest and other investment income	2	-	17	-	191	476	-	-
Other taxes	-	-	-	20,097	300,130	890,484	-	-
Other	256,208	-	-	-	-	-	-	-
Total revenues	4,207,079	152,647	1,439,917	43,628	626,241	1,647,807	204,230	5,599
EXPENDITURES								
Health and social services	8,233,532	203,548	1,451,822	131	866,392	1,507,312	194,289	11,408
Education	(9,778)	-	-	-	-	-	-	-
Employment and economic development	14,876	-	-	-	-	-	-	-
General government	236,016	-	-	-	-	-	-	-
Transportation	(1,518)	-	-	-	-	-	-	-
Public protection and justice	701,726	-	-	-	-	-	-	-
Environment and business regulation	25,870	-	-	-	-	-	-	-
Capital outlays	22	-	-	-	-	-	-	-
Total expenditures	9,200,746	203,548	1,451,822	131	866,392	1,507,312	194,289	11,408
Excess (deficiency) of revenues over (under) expenditures	(4,993,667)	(50,901)	(11,905)	43,497	(240,151)	140,495	9,941	(5,809)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES								
Appropriations from State resources	8,258,209	-	-	1,139	-	-	-	15,000
Lapsed appropriations	(171,409)	-	-	(1,008)	-	-	-	(3,592)
Receipts collected and transmitted to State Treasury	(3,830,440)	-	-	(43,747)	-	-	-	(5,808)
Amount of SAMS transfers-in	(80,000)	-	-	-	-	-	-	-
Amount of SAMS transfers-out	190,000	-	-	-	-	-	-	-
Transfers-in	80,000	90,000	-	-	30,000	-	-	-
Transfers-out	(465,035)	-	-	-	(20,000)	(130,000)	-	-
Net other sources (uses) of financial resources	3,981,325	90,000	-	(43,616)	10,000	(130,000)	-	5,600
Net change in fund balances	(1,012,342)	39,099	(11,905)	(119)	(230,151)	10,495	9,941	(209)
Fund balances (deficits), July 1, 2011	(1,151,937)	16,573	(60,538)	309	23,232	130,417	(9,941)	1,605
FUND BALANCES (DEFICITS), JUNE 30, 2012	\$ (2,164,279)	\$ 55,672	\$ (72,443)	\$ 190	\$ (206,919)	\$ 140,912	\$ -	\$ 1,396

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, 2012 (Expressed in Thousands)

	Public Assistance Recoveries Trust 0421	Medical Research and Development 0486	Post- Tertiary Clinical Services 0487	Electronic Health Record Incentive 0503	Juvenile Rehab Services Medicaid Matching 0575	Medical Interagency Program 0720	Drug Rebate 0728	Independent Academic Medical Center 0735
REVENUES								
Operating grants - federal	\$ 63,439	\$ 6,400	\$ 6,400	\$ 82,555	\$ 434	\$ 14,588	\$ 287,260	\$ 1,000
Other operating grants	-	-	-	-	-	-	-	-
Licenses and fees	-	-	-	-	-	-	-	-
Other charges for services	39,251	-	-	-	-	-	-	-
Interest and other investment income	-	-	-	-	-	14	441	-
Other taxes	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Total revenues	102,690	6,400	6,400	82,555	434	14,602	287,701	1,000
EXPENDITURES								
Health and social services	102,024	12,800	12,800	178,035	173	32,088	237,650	2,000
Education	-	-	-	-	-	-	-	-
Employment and economic development	-	-	-	-	-	-	-	-
General government	-	-	-	-	-	-	-	-
Transportation	-	-	-	-	-	-	-	-
Public protection and justice	-	-	-	-	-	-	-	-
Environment and business regulation	-	-	-	-	-	-	-	-
Capital outlays	-	-	-	-	-	-	-	-
Total expenditures	102,024	12,800	12,800	178,035	173	32,088	237,650	2,000
Excess (deficiency) of revenues over (under) expenditures	666	(6,400)	(6,400)	(95,480)	261	(17,486)	50,051	(1,000)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES								
Appropriations from State resources	-	-	-	-	-	-	-	-
Lapsed appropriations	-	-	-	-	-	-	-	-
Receipts collected and transmitted to State Treasury	-	-	-	-	-	-	-	-
Amount of SAMS transfers-in	-	-	-	-	-	-	-	-
Amount of SAMS transfers-out	-	-	-	-	-	-	-	-
Transfers-in	218	6,400	6,400	-	-	26,493	-	1,000
Transfers-out	(500)	-	-	-	-	-	-	-
Net other sources (uses) of financial resources	(282)	6,400	6,400	-	-	26,493	-	1,000
Net change in fund balances	384	-	-	(95,480)	261	9,007	50,051	-
Fund balances (deficits), July 1, 2011	(384)	2	2	-	(523)	11,008	318,419	-
FUND BALANCES (DEFICITS), JUNE 30, 2012	\$ -	\$ 2	\$ 2	\$ (95,480)	\$ (262)	\$ 20,015	\$ 368,470	\$ -

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, 2012 (Expressed in Thousands)

	Medicaid Buy-in Program Revolving 0740	FY12 Hospital Relief 0748	Healthcare Provider Relief 0793	Medical Special Purpose Trust 0808	Eliminations	Total
REVENUES						
Operating grants - federal	\$ -	\$ -	\$ 574,850	\$ 6,971	\$ -	\$ 7,117,238
Other operating grants	-	-	6,359	1,705	-	775,559
Licenses and fees	705	-	-	-	-	19,412
Other charges for services	-	-	-	-	(39,251)	-
Interest and other investment income	6	-	304	-	-	1,451
Other taxes	-	-	2,364	-	-	1,213,075
Other	-	-	-	16	-	256,224
Total revenues	711	-	583,877	8,692	(39,251)	9,382,959
EXPENDITURES						
Health and social services	322	258,800	816,389	9,293	(39,251)	14,091,557
Education	-	-	-	-	-	(9,778)
Employment and economic development	-	-	-	-	-	14,876
General government	-	-	-	-	-	236,016
Transportation	-	-	-	-	-	(1,518)
Public protection and justice	-	-	-	-	-	701,726
Environment and business regulation	-	-	-	-	-	25,870
Capital outlays	-	-	-	-	-	22
Total expenditures	322	258,800	816,389	9,293	(39,251)	15,058,771
Excess (deficiency) of revenues over (under) expenditures	389	(258,800)	(232,512)	(601)	-	(5,675,812)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES						
Appropriations from State resources	-	-	-	-	-	8,274,348
Lapsed appropriations	-	-	-	-	-	(176,009)
Receipts collected and transmitted to State Treasury	-	-	-	-	-	(3,879,995)
Amount of SAMS transfers-in	-	-	-	-	-	(80,000)
Amount of SAMS transfers-out	-	-	-	-	-	190,000
Transfers-in	-	140,000	311,000	500	(544,696)	147,315
Transfers-out	-	-	-	-	544,696	(70,839)
Net other sources (uses) of financial resources	-	140,000	311,000	500	-	4,404,820
Net change in fund balances	389	(118,800)	78,488	(101)	-	(1,270,992)
Fund balances (deficits), July 1, 2011	1,111	-	117,213	14,492	-	(588,940)
FUND BALANCES (DEFICITS), JUNE 30, 2012	\$ 1,500	\$ (118,800)	\$ 195,701	\$ 14,391	\$ -	\$ (1,859,932)

State of Illinois

Department of Healthcare and Family Services

**Combining Balance Sheet -
Nonmajor Governmental Funds**

June 30, 2012 (Expressed in Thousands)

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	Special Revenue						Total
	Illinois Prescription Drug Discount Program 0316	Provider Inquiry Trust 0341	Money Follows the Person Budget Transfer 0522	Department of Corrections Reimbursement and Education 0523	Tobacco Settlement Recovery 0733	Child Support Administration 0757	
ASSETS							
Unexpended appropriations	\$ -	\$ -	\$ -	\$ -	\$ 221	\$ -	\$ 221
Cash equity with State Treasurer	257	1,286	875	-	-	34,244	36,662
Securities lending collateral equity with State Treasurer	-	-	411	-	-	-	411
Due from other government - federal	-	-	713	11	103	18,463	19,290
Other receivables, net	-	235	-	-	-	10,732	10,967
Due from other Department funds	-	-	-	-	-	-	-
Due from other State funds	-	491	-	-	-	-	491
Total assets	\$ 257	\$ 2,012	\$ 1,999	\$ 11	\$ 324	\$ 63,439	\$ 68,042
LIABILITIES							
Accounts payable and accrued liabilities	\$ -	\$ -	\$ 85	\$ -	\$ 221	\$ 5,712	\$ 6,018
Due to other government - federal	-	-	-	-	-	6,857	6,857
Due to other government - local	-	-	-	-	-	6,126	6,126
Due to other State fiduciary funds	-	-	-	-	-	877	877
Due to other Department funds	-	-	-	-	-	805	805
Due to other State funds	-	119	-	-	-	4,600	4,719
Due to State of Illinois component units	-	-	737	-	-	-	737
Unavailable revenue	-	-	454	6	-	34	494
Obligations under securities lending of State Treasurer	-	-	411	-	-	-	411
Total liabilities	-	119	1,687	6	221	25,011	27,044
FUND BALANCES							
Nonspendable	-	-	-	-	-	-	-
Restricted - Health and Welfare	-	-	-	-	-	-	-
Committed - Health and Welfare	257	1,893	312	5	-	38,428	40,895
Assigned	-	-	-	-	-	-	-
Unassigned	-	-	-	-	103	-	103
Total fund balances	257	1,893	312	5	103	38,428	40,998
Total liabilities and fund balances	\$ 257	\$ 2,012	\$ 1,999	\$ 11	\$ 324	\$ 63,439	\$ 68,042

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, 2012 (Expressed in Thousands)

	Special Revenue						Total
	Illinois Prescription Drug Discount Program 0316	Provider Inquiry Trust 0341	Money Follows the Person Budget Transfer 0522	Department of Corrections Reimbursement and Education 0523	Tobacco Settlement Recovery 0733	Child Support Administration 0757	
REVENUES							
Operating grants - federal	\$ -	\$ -	\$ 774	\$ 66	\$ 93,374	\$ 117,751	\$ 211,965
Licenses and fees	-	1,336	-	-	-	-	1,336
Other charges for services	-	-	-	-	-	18,954	18,954
Interest and other investment income	-	-	1	-	-	-	1
Other revenues, net	-	-	-	-	-	-	-
Total revenues	-	1,336	775	66	93,374	136,705	232,256
EXPENDITURES							
Health and social services	-	709	1,474	-	194,335	179,422	375,940
Capital outlay	-	-	-	-	-	122	122
Total expenditures	-	709	1,474	-	194,335	179,544	376,062
Excess (deficiency) of revenues over (under) expenditures	-	627	(699)	66	(100,961)	(42,839)	(143,806)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES							
Appropriations from State resources	-	-	-	-	200,600	-	200,600
Lapsed appropriations	-	-	-	-	(13)	-	(13)
Receipts collected and transmitted to State Treasury	-	-	-	(70)	(93,559)	-	(93,629)
Transfers-in	-	-	900	-	-	29,939	30,839
Transfers-out	-	-	-	-	-	-	-
Net other sources (uses) of financial resources	-	-	900	(70)	107,028	29,939	137,797
Net change in fund balances	-	627	201	(4)	6,067	(12,900)	(6,009)
Fund balances, July 1, 2011	257	1,266	111	9	(5,964)	51,328	47,007
FUND BALANCES, JUNE 30, 2012	\$ 257	\$ 1,893	\$ 312	\$ 5	\$ 103	\$ 38,428	\$ 40,998

State of Illinois

Department of Healthcare and Family Services

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

June 30, 2012 (Expressed in Thousands)

	Teacher Health Insurance Security 0203	Community College Health Insurance Security 0577	Total
ASSETS			
Cash equity with State Treasurer	\$ 38,724	\$ 1,122	\$ 39,846
Cash and cash equivalents	13,305	1,380	14,685
Securities lending collateral equity with State Treasurer	11,325	559	11,884
Receivables, net:			
Federal government	5,862	563	6,425
Employee	4,646	230	4,876
Employer	3,485	230	3,715
Interest and investment income	8	-	8
Other	9,131	881	10,012
Due from other State funds	56,331	2,564	58,895
Total assets	142,817	7,529	150,346
LIABILITIES			
Accounts payable and accrued liabilities	162,464	44,927	207,391
Intergovernmental payables	2	1	3
Due to other State fiduciary funds	12	2	14
Due to other Department funds	9	2	11
Due to other State funds	114	18	132
Obligations under securities lending of State Treasurer	11,325	559	11,884
Long term obligations:			
Due within one year	5	-	5
Due subsequent to one year	82	6	88
Total liabilities	174,013	45,515	219,528
NET ASSETS HELD IN TRUST FOR PENSION AND OTHER EMPLOYEE BENEFITS	\$ (31,196)	\$ (37,986)	\$ (69,182)

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, 2012 (Expressed in Thousands)

	Teacher Health Insurance Security 0203	Community College Health Insurance Security 0577	Total
ADDITIONS			
Contributions:			
Employer	\$ 71,376	\$ 4,269	\$ 75,645
State	87,622	4,396	92,018
Plan members:			
Active	95,271	4,269	99,540
Retiree	165,651	14,953	180,604
Terminated employees (COBRA)	119	-	119
Federal Medicare Part D	24,911	2,424	27,335
Total contributions	<u>444,950</u>	<u>30,311</u>	<u>475,261</u>
Investment income:			
Interest and other investment income	127	10	137
Net investment income	<u>127</u>	<u>10</u>	<u>137</u>
Total additions	<u>445,077</u>	<u>30,321</u>	<u>475,398</u>
DEDUCTIONS			
Benefit payments and refunds	480,452	45,861	526,313
General and administration	2,946	2,789	5,735
Total deductions	<u>483,398</u>	<u>48,650</u>	<u>532,048</u>
Net additions (deductions)	(38,321)	(18,329)	(56,650)
Net assets held in trust for pension and other employee benefits, July 1, 2011	<u>7,125</u>	<u>(19,657)</u>	<u>(12,532)</u>
NET ASSETS HELD IN TRUST FOR PENSION AND OTHER EMPLOYEE BENEFITS, June 30, 2012	<u>\$ (31,196)</u>	<u>\$ (37,986)</u>	<u>\$ (69,182)</u>

State of Illinois
Department of Healthcare and Family Services

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

June 30, 2012 (Expressed in Thousands)

	Child Support Enforcement Trust 0957	Child Support Enforcement Trust - SDU 2957	Total
ASSETS			
Cash equity with State Treasurer	\$ 16,183	\$ -	\$ 16,183
Cash and cash equivalents	373	3,603	3,976
Other receivables, net	214,255	17	214,272
Total assets	\$ 230,811	\$ 3,620	\$ 234,431
LIABILITIES			
Accounts payable and accrued liabilities	\$ 18,196	\$ 3,620	\$ 21,816
Other liabilities	212,615	-	212,615
Total liabilities	\$ 230,811	\$ 3,620	\$ 234,431

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, 2012 (Expressed in Thousands)

	Balance at July 1, 2011	Additions	Deletions	Balance at June 30, 2012
Child Support Enforcement Trust (0957)				
ASSETS				
Cash equity with State Treasurer	\$ 15,801	\$ 185,520	\$ 185,138	\$ 16,183
Cash and cash equivalents	133	71,854	71,614	373
Other receivables, net	222,962	176,813	185,520	214,255
Total assets	\$ 238,896	\$ 434,187	\$ 442,272	\$ 230,811
LIABILITIES				
Accounts payable and accrued liabilities	\$ 16,997	\$ 23,526	\$ 22,327	\$ 18,196
Other liabilities	221,899	225,141	234,425	212,615
Total liabilities	\$ 238,896	\$ 248,667	\$ 256,752	\$ 230,811
Child Support Enforcement Trust - SDU (2957)				
ASSETS				
Cash and cash equivalents	\$ 1,440	\$ 1,117,523	\$ 1,115,360	\$ 3,603
Other receivables, net	37	444	464	17
Total assets	\$ 1,477	\$ 1,117,967	\$ 1,115,824	\$ 3,620
LIABILITIES				
Accounts payable and accrued liabilities	\$ 1,477	\$ 1,117,503	\$ 1,115,360	\$ 3,620
Total liabilities	\$ 1,477	\$ 1,117,503	\$ 1,115,360	\$ 3,620
Total				
ASSETS				
Cash equity with State Treasurer	\$ 15,801	\$ 185,520	\$ 185,138	\$ 16,183
Cash and cash equivalents	1,573	1,189,377	1,186,974	3,976
Other receivables, net	222,999	177,257	185,984	214,272
Total assets	\$ 240,373	\$ 1,552,154	\$ 1,558,096	\$ 234,431
LIABILITIES				
Accounts payable and accrued liabilities	\$ 18,474	\$ 1,141,029	\$ 1,137,687	\$ 21,816
Other liabilities	221,899	225,141	234,425	212,615
Total liabilities	\$ 240,373	\$ 1,366,170	\$ 1,372,112	\$ 234,431

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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, 2012, which collectively comprise the State of Illinois, Department of Healthcare and Family Services' basic financial statements, 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 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 deficiency described in the accompanying schedule of findings as item 12-1 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 deficiency described in the accompanying schedule of findings as item 12-2 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings as item 12-1.

We noted certain matters that we reported to management of the State of Illinois, Department of Healthcare and Family Services in a separate letter dated March 29, 2013.

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

March 29, 2013

STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES
SCHEDULE OF FINDINGS
For the Year Ended June 30, 2012

12-1. **FINDING** (Financial statement preparation)

The Department of Healthcare and Family Services' (Department) year-end financial reporting in accordance with generally accepted accounting principles (GAAP) 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 \$102.332 million was made to restate the Net Other Postemployment Benefit Obligation as of June 30, 2011 due to an error in the calculation of "Benefits paid during the year" for the year ended June 30, 2011.
- The Department did not recognize revenues and expenditures for the Department's May and June 2011 Medicare A and B Premiums that were processed in Fiscal Year 2012, totaling \$67.443 million. In regard to Medicare A and B Premiums, the Federal Government reduces the Department's federal draws instead of having the Department submit an actual payment, as a result, these premiums must be recognized as an increase to federal revenues and expenditures in the financial statements. As a result, federal government revenues and health and social services expenditures were understated by \$67.443 million.
- The Department incorrectly calculated the prompt pay interest due from the Health Insurance Reserve Fund. The prompt pay liability was understated by \$16.051 million.

Also during our review, we noted other errors in the preparation of the Department's financial statements. The errors included calculating and classifying liabilities incorrectly, understating revenues and expenditures, double counting liabilities, misclassifying revenues and calculating receivables incorrectly. While the Department's internal control process did not identify all of the errors noted, the errors were not material to the Department's financial statements taken as a whole.

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 (Chapter 27).

Also, 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,

STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES
SCHEDULE OF FINDINGS
For the Year Ended June 30, 2012

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 that the complexity of the Department's financial statements specifically related to the Group Health Insurance program was a significant factor attributing to the adjustments. Several key and experienced staff, within the fiscal and Group Health Insurance program areas, accepted positions with other organizations during this reporting period. The replacement staff did not possess the wealth of knowledge or experience with financial reporting which was also a contributing factor.

Failure to implement appropriate internal controls could lead to future misstatements of the Statewide and the Department's financial statements. (Finding Code No. 12-1, 11-1, 10-1, 09-02)

RECOMMENDATION

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

DEPARTMENT RESPONSE

The Department accepts the recommendation. The Department has and will continue to assess the financial reporting process and related procedures and implement necessary internal control changes to improve the accuracy of the financial statements. The Department has established and filled a key position in the financial reporting area requiring specific accounting skills and professional accounting certification. The Department is also reviewing other position classifications to ensure that staff hired into these positions have the requisite skills, education and knowledge of accounting and financial reporting.

It should be noted that the June 30, 2011 overstatement of the Other Postemployment Benefits (OPEB) liability of \$102.332 million was discovered by the Department during an internal review of the contribution information. This exception and the understatement of the prompt pay liability for the Health Insurance Reserve Fund are both related to the Group Insurance program that transferred to the Department of Central Management Services effective July 1, 2012.

STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES
SCHEDULE OF FINDINGS
For the Year Ended June 30, 2012

12-2. **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).

We noted that only one individual was involved in calculating the insurance rates and there was no written rate-setting methodology of how this individual calculates the TRIP insurance rates. This individual left the agency near the end of the fiscal year and the Department did not have any other employees aware of how the previous individual calculated the 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 how the 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 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 (CMS) 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 including 5 ILCS 375 et seq. The functions associated with State Healthcare Purchasing intended to be transferred included rate development.

Executive Order 2012-01, *Executive Order to Reorganize Agencies by the Transfer of Certain Functions of the Department of Healthcare and Family Services to the Department of Central Management Services, the Department of Corrections, the Department of Juvenile Justice, the Department of Human Services, and the Department*

STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES
SCHEDULE OF FINDINGS
For the Year Ended June 30, 2012

of Veterans' Affairs issued by the Governor on March 1, 2012 transferred the respective powers, duties, rights and responsibilities related to State Healthcare Purchasing from the Department of Healthcare and Family Services back to various departments, including CMS. The departments had until September 30, 2012 to complete the transfer of functions.

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.

Department management stated that the rate setting calculations are performed via formulas retained in electronic spreadsheets and staff resources were not available to convert the electronic methodology into written procedures. Executive Order 12-01 transferred the Office of Healthcare Purchasing from the Department back to CMS effective July 1, 2012.

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.

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. 12-2, 11-3, 10-2)

RECOMMENDATION

We recommend the Department develop a formal written rate-setting methodology as required by the State Employees Group Insurance Act and submit it to the Teachers' Retirement System.

DEPARTMENT RESPONSE

Executive Order 12-01 transferred the Office of Healthcare Purchasing from the Department back to CMS effective July 1, 2012. The functions associated with State Healthcare Purchasing and the development of a formal written rate-setting methodology, are now the responsibility of CMS.

STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES
PRIOR FINDINGS NOT REPEATED
For the Year Ended June 30, 2012

A. **FINDING** (Insufficient controls over the University of Illinois Hospital Service Fund)

During the prior examination, the Illinois Department of Healthcare and Family Services (Department) did not make an adjustment to re-price the Fiscal Year 2011 inpatient and outpatient claims from Fiscal Year 2010 rates to Fiscal Year 2011 rates in a timely manner. In addition, the Department's calculation of the Fiscal Year 2011 inpatient rate was incorrect. Two of the amounts used by the Department to calculate the rate did not agree with the data provided by the Hospital.

During the current examination, the Department made an adjustment to re-price Fiscal Year 2012 inpatient and outpatient claims from Fiscal Year 2011 rates to Fiscal Year 2012 rates in a timely manner. In addition, the Department's calculation of the Fiscal Year 2012 inpatient rate appeared to be correct and agreed with the data provided by the Hospital. (Finding Code No. 11-2)

B. **FINDING** (Inadequate controls over County Hospital Services Fund)

During the prior examination, the Department's calculations of Fiscal Year 2011 outpatient rates were incorrect. In addition, the Department was unable to provide documentation to support its calculation of the Medicare, Medicaid, and Benefits Improvement and Protection Act (BIPA) Disproportionate Share Hospital (DSH) adjustment payments for Fiscal Year 2011. Furthermore, BIPA DSH allocations to Cook County hospitals were not based on total Medicaid inpatient days from the appropriate Fiscal Year. Finally, the Department made a Secondary Transfer Payment for an incorrect amount.

During the current examination, auditors determined that Fiscal Year 2012 outpatient rate calculations appeared to be correct and the Department was able to provide documentation to support its calculation of the Medicare, Medicaid, and BIPA DSH adjustment payments for Fiscal Year 2012. However, BIPA DSH payment allocations to Cook County hospitals for Fiscal Year 2012 were not based on total Medicaid inpatient days from the appropriate year. While payment amounts to Cook County hospitals are affected, this does not affect amounts reported in the Department's Fiscal Year 2012 financial statements. As a result, this issue will be followed up in the next Compliance Examination for the two years ended June 30, 2013. Finally, the Department again made a Secondary Transfer Payment for an incorrect amount; however, the overpayment is not material to the financial statements. As a result, this portion of the prior finding has been moved to the Other Matters letter. (Finding Code No. 11-4)