

**STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES
LOCAL GOVERNMENT HEALTH INSURANCE RESERVE FUND**

**FINANCIAL AUDIT
For the Year Ended June 30, 2007**

STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES
LOCAL GOVERNMENT HEALTH INSURANCE RESERVE FUND
FINANCIAL AUDIT
For the Year Ended June 30, 2007

AGENCY OFFICIALS

Director	Barry S. Maram
Assistant Director	Vacant
General Counsel	Nancy Shalowitz (7/1/06-12/28/07) Kyong Lee (Acting) (12/31/07 – Current)
Inspector General	John C. Allen
State Purchasing Officer	Thomas Meirink
Division of Finance, Administrator	Michael Moss
Office of Fiscal Management, Chief	Jack Dodds

Department of Healthcare and Family Services offices are located at:

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2200 Churchill Road
Springfield, IL 62702

STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES
LOCAL GOVERNMENT HEALTH INSURANCE RESERVE FUND
FINANCIAL AUDIT
For the Year Ended June 30, 2007

FINANCIAL STATEMENT REPORT

SUMMARY

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

Based on their audit, the auditors expressed an unqualified opinion on the Local Government Health Insurance Reserve Fund's financial statements.

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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 Local Government Health Insurance Reserve Fund of the State of Illinois, Department of Healthcare and Family Services, as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the State of Illinois, Department of Healthcare and Family Services' management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Local Government Health Insurance Reserve Fund of the State of Illinois, Department of Healthcare and Family Services, as of June 30, 2007, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

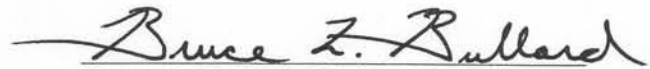
In accordance with *Government Auditing Standards*, we have also issued a report dated June 12, 2008 on our consideration of the State of Illinois, Department of Healthcare and Family Services' internal control over financial reporting of the Local Government Health Insurance Reserve Fund and on our tests of the State of Illinois, Department of Healthcare and Family Services' compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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RECYCLED PAPER • SOYBEAN INKS

The Schedule of Claims for the Ten Years Ended June 30, 2007 on page 16 is not a required part of the financial statements of the Local Government Health Insurance Reserve Fund but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The State of Illinois, Department of Healthcare and Family Services has not presented a management's discussion and analysis for the Local Government Health Insurance Reserve Fund that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.



Bruce L. Bullard, CPA

Director of Financial and Compliance Audits

June 12, 2008

STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES
LOCAL GOVERNMENT HEALTH INSURANCE RESERVE FUND
STATEMENT OF NET ASSETS
June 30, 2007

(Expressed in Thousands)

ASSETS

Cash equity with State Treasurer	\$ 9,423
Cash and cash equivalents	1,952
Due from other government - federal	49
Due from other government - local	88
Other receivables, net	341
Total current assets	11,853
Capital assets being depreciated, net	9
Total assets	11,862

LIABILITIES

Accounts payable and accrued liabilities	4,437
Due to other Department funds	1
Due to other State funds	18
Total current liabilities	4,456
Noncurrent portion of long-term obligations	32
Total liabilities	4,488

NET ASSETS

Invested in capital assets, net of related debt	9
Unrestricted	7,365
Total net assets	\$ 7,374

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

STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES
LOCAL GOVERNMENT HEALTH INSURANCE RESERVE FUND
**STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS**
For the Year Ended June 30, 2007

(Expressed in Thousands)

OPERATING REVENUES	
Charges for sales and services	\$ 63,792
Other	89
Total operating revenues	<u>63,881</u>
OPERATING EXPENSES	
Benefit payments and refunds	59,647
General and administrative	869
Total operating expenses	<u>60,516</u>
Operating income (loss)	3,365
NONOPERATING REVENUES (EXPENSES)	
Interest and investment income	469
Other revenues	185
Income (loss) before contributions and transfers	4,019
Transfers-out	<u>(1,000)</u>
Change in net assets	3,019
Net assets, July 1, 2006	<u>4,355</u>
NET ASSETS, JUNE 30, 2007	<u><u>\$ 7,374</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
LOCAL GOVERNMENT HEALTH INSURANCE RESERVE FUND
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2007

(Expressed in Thousands)

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from sales and services	\$ 64,420
Cash payments to suppliers for goods and services	(61,774)
Cash payments to employees for services	(792)
Cash receipts from other operating activities	420
Net cash provided (used) by operating activities	2,274
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Operating grants received	206
Transfers-out to other funds	(1,000)
Net cash provided (used) by noncapital financing activities	(794)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition and construction of capital assets	(9)
Net cash (used) by capital and related financing activities	(9)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest and dividends on investments	458
Net cash provided (used) by investing activities	458
Net increase (decrease) in cash and cash equivalents	1,929
Cash and cash equivalents, July 1, 2006	9,446
CASH AND CASH EQUIVALENTS, JUNE 30, 2007	\$ 11,375
Reconciliation of cash and cash equivalents to the statement of net assets:	
Total cash and cash equivalents per the statement of net assets	\$ 1,952
Add: cash equity with State Treasurer	9,423
CASH AND CASH EQUIVALENTS, JUNE 30, 2007	\$ 11,375

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

STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES
LOCAL GOVERNMENT HEALTH INSURANCE RESERVE FUND
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2007

(Expressed in Thousands)

**Reconciliation of operating income (loss) to net cash
provided (used) by operating activities:**

OPERATING INCOME (LOSS)	<u>\$ 3,365</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	134
(Increase) decrease in intergovernmental receivables	(88)
(Increase) decrease in accounts payable and accrued liabilities	(1,102)
Increase (decrease) in intergovernmental payables	(1)
Increase (decrease) in due to other funds	3
Increase (decrease) in deferred revenues	(10)
Increase (decrease) in other liabilities	<u>(27)</u>
Total adjustments	<u>(1,091)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u><u>\$ 2,274</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
LOCAL GOVERNMENT HEALTH INSURANCE RESERVE FUND
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2007

(1) Organization

The Local Government Health Insurance Reserve Fund (LGHIRF) was established to provide health and dental insurance to participating local governmental entities. The fund is part of the primary government of the State of Illinois. The Department of Healthcare and Family Services (Department) is responsible for the financial reporting of the fund.

As of June 30, 2007, there were 501 local governmental entities participating with approximately 6,399 employees, 4,156 dependents and 352 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 works in conjunction with DCMS to administer the Local Government Health Plan.

The responsibilities required of the DCMS are:

- Setting and adjusting premium rates
- Billing and collecting 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 of Healthcare and Family Services are:

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

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
- Participate in the program for a minimum of two years

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The LGHIRF prepares its financial statements in accordance with Government Accounting Standards Board (GASB) Statement Nos. 10, 29, 30 and 34.

STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES
LOCAL GOVERNMENT HEALTH INSURANCE RESERVE FUND
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2007

GASB 10 and 30 provide accounting and reporting standards that apply to public entity risk pools, and require public entity risk pools to account for their activities using proprietary fund accounting. Proprietary activities are accounted for using the economic resources measurement focus and the accrual basis of accounting.

GASB 29 allows proprietary entities to apply all Financial Accounting Standards Board statements and interpretations, excluding those limited to not for profit organizations, issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

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.

(b) 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.

(c) Investments

Investments are reported at fair value.

(d) 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

STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES
LOCAL GOVERNMENT HEALTH INSURANCE RESERVE FUND
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2007

(e) Compensated Absences

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

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

(f) Use of Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles (GAAP) requires management to make estimates and assumptions that affect 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.

(g) Health Benefits Claims Processing

The State Employees Group Insurance Act of 1971 (5 ILCS 375) establishes the Department's responsibility 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. 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.

STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES
LOCAL GOVERNMENT HEALTH INSURANCE RESERVE FUND
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2007

(3) Deposits and Investments

(a) Deposits

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

Cash on deposit with the State Treasurer totaled \$9,423 thousand at June 30, 2007.

(b) Investments

As of June 30, 2007, the Department had the following investments outside of the State Treasury:

	Fair Value (Thousands)	Book Value (Thousands)	Weighted Average Maturity (Years)
Repurchase agreements	\$ 238	\$ 238	0.003
Money market mutual funds	1,714	1,714	0.090
Total fixed income investments	<u>\$1,952</u>	<u>\$1,952</u>	

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 repurchase agreements and the Money Market Mutual Funds were rated Aaa by Moody’s.

STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES
LOCAL GOVERNMENT HEALTH INSURANCE RESERVE FUND
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2007

(4) Capital Assets

Capital asset activity (amounts expressed in thousands) for the year ended June 30, 2007 is as follows:

	Balance July 1, 2006	Additions	Deletions	Net Transfers	Balance June 30, 2007
Capital assets being depreciated:					
Equipment	\$ -	\$ 9	\$ -	\$ -	\$ 9
Less accumulated depreciation:					
Equipment	-	-	-	-	-
Total capital assets being depreciated, net	<u>\$ -</u>	<u>\$ 9</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9</u>

(5) Long-Term Obligations

Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2007 were as follows:

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007	Amounts Due Within One Year
Compensated Absences	\$ 59	\$ 15	\$ 42	\$ 32	\$ -
Total	<u>\$ 59</u>	<u>\$ 15</u>	<u>\$ 42</u>	<u>\$ 32</u>	<u>\$ -</u>

STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES
LOCAL GOVERNMENT HEALTH INSURANCE RESERVE FUND
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2007

(6) Risk Pool Disclosure

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, 2007.

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. The estimated ultimate cost of settling the claims includes the effect of inflation and other societal and economic factors. For the year ended June 30, 2007, 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, 2007 is as follows:

Claims incurred and reported but not paid as of June 30	\$1,555
Estimated liability for claims incurred but not reported	2,847
Total estimated liability for future claims	\$4,402

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	\$60,749
Less: liability for unpaid claims, beginning of year	5,504
Subtotal	55,245
Add: liability for unpaid claims, end of year	4,402
Total benefit claim payments and refunds	\$59,647

STATE OF ILLINOIS
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NOTES TO THE FINANCIAL STATEMENTS
June 30, 2007

The following reconciliation represents changes in aggregate liabilities (amounts expressed in thousands) for the Fund during the past two years:

	Healthcare Claims	
	2007	2006
	<u> </u>	<u> </u>
Unpaid claims and claim adjustment expense at beginning of year	\$5,504	\$7,951
Incurred claim and adjustment expenses:		
Provision for insured claims of the current year	61,423	68,778
Decrease in provisions for claims of prior year	<u>(1,776)</u>	<u>(4,113)</u>
Total incurred claims and claim adjustments	<u>\$59,647</u>	<u>\$64,665</u>
Payments:		
Claims and claim adjustment expense attributable to claims of the current year	\$57,021	\$63,274
Claims and claim adjustment expense attributable to claims of prior year	<u>3,728</u>	<u>3,838</u>
Total Payment	<u>\$60,749</u>	<u>\$67,112</u>
Total unpaid claims and claim adjustments expense at end of year	<u>\$4,402</u>	<u>\$5,504</u>

(7) Contingencies

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

STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES
LOCAL GOVERNMENT HEALTH INSURANCE RESERVE FUND
SCHEDULE OF CLAIMS FOR ACTIVE EMPLOYEES
For the Ten Years Ended June 30, 2007

DEVELOPMENT INFORMATION

The table below illustrates how the Fund's earned required contribution and investment income compared to related costs of loss and other expenses assumed by the Fund as of the following fiscal year ends (expressed in thousands).

The following information for the ten fiscal years ended June 30, 2007 is being gathered prospectively, as data becomes available because the revenues and expenses were first allocated between earned and ceded for the fiscal year ended June 30, 1998.

	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Net earned required contribution and investment revenue:										
Earned	\$ 64,261	\$ 67,074	\$ 67,876	\$ 72,400	\$ 81,854	\$ 88,640	\$ 87,366	\$ 71,645	\$ 57,656	\$ 44,006
Ceded	-	-	-	-	-	-	(1,234)	(1,210)	(596)	(628)
Net earned revenue	64,261	67,074	67,876	72,400	81,854	88,640	86,132	70,435	57,060	43,378
Unallocated expenses	1,869	835	2,799	2,796	785	827	751	1,390	489	823
Estimated incurred claims and expenses, end of policy year:										
Incurred	59,647	63,919	67,559	67,837	71,465	79,534	86,543	80,892	59,034	49,481
Ceded	-	-	-	-	-	-	(80)	924	(1,256)	444
Net incurred claims	59,647	63,919	67,559	67,837	71,465	79,534	86,463	81,816	57,778	49,925
Paid (cumulative) as of:										
End of policy year	57,021	63,274	67,053	64,416	58,355	82,262	76,091	63,807	51,981	47,437
One year later	-	67,002	70,891	67,833	63,399	99,967	87,785	74,517	60,016	53,005
Two years later	-	-	70,891	67,833	63,399	99,967	87,785	74,517	60,016	53,027
Three years later	-	-	-	67,833	63,399	99,967	87,785	74,517	60,016	53,027
Four years later	-	-	-	-	63,399	99,967	87,785	74,517	60,016	53,027
Five years later	-	-	-	-	-	99,967	87,785	74,517	60,016	53,027
Six years later	-	-	-	-	-	-	87,785	74,517	60,016	53,027
Seven years later	-	-	-	-	-	-	-	74,517	60,016	53,027
Eight years later	-	-	-	-	-	-	-	-	60,016	53,027
Nine years later	-	-	-	-	-	-	-	-	-	53,027
Reestimated ceded losses and expenses	-	-	-	-	-	-	1,980	1,522	1,256	82
Reestimated incurred claims and expenses:										
End of policy year	61,423	68,778	75,003	74,749	69,914	97,965	97,779	83,618	58,376	53,041
One year later	-	67,002	70,891	67,833	63,399	99,967	87,785	74,517	60,016	53,005
Two years later	-	-	70,891	67,833	63,399	99,967	87,785	74,517	60,016	53,027
Three years later	-	-	-	67,833	63,399	99,967	87,785	74,517	60,016	53,027
Four years later	-	-	-	-	63,399	99,967	87,785	74,517	60,016	53,027
Five years later	-	-	-	-	-	99,967	87,785	74,517	60,016	53,027
Six years later	-	-	-	-	-	-	87,785	74,517	60,016	53,027
Seven years later	-	-	-	-	-	-	-	74,517	60,016	53,027
Eight years later	-	-	-	-	-	-	-	-	60,016	53,027
Nine years later	-	-	-	-	-	-	-	-	-	53,027
Increase (decrease) in estimated incurred claims and expenses from end of policy year	\$ -	\$ (1,776)	\$ (4,112)	\$ (6,916)	\$ (6,515)	\$ 2,002	\$ (9,994)	\$ (9,101)	\$ 1,640	\$ (14)

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OFFICE OF THE AUDITOR GENERAL
WILLIAM G. HOLLAND

INDEPENDENT ACCOUNTANTS' 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 Local Government Health Insurance Reserve Fund of the State of Illinois, Department of Healthcare and Family Services, as of and for the year ended June 30, 2007, and have issued our report thereon dated June 12, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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


A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

Compliance and Other Matters

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


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

June 12, 2008