

STATE OF ILLINOIS  
DEPARTMENT OF CHILDREN  
AND FAMILY SERVICES

FINANCIAL AUDIT

For the Year Ended June 30, 2010

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

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

TABLE OF CONTENTS

	<u>Pages</u>
Agency Officials	1
Financial Statement Report	
Summary	2
Independent Auditors' Report	3 – 4
Basic Financial Statements	
Statement of Net Assets and Governmental Funds Balance Sheet	5
Reconciliation of Governmental Funds Balance Sheet to Statement of Net Assets	6
Statement of Activities and Governmental Revenues, Expenditures And Changes in Fund Balances	7
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to Statement of Activities	8
Statement of Fiduciary Net Assets	9
Statement of Changes in Fiduciary Net Assets	10
Notes to Financial Statements	11 - 25
Supplementary Information	
Combining Balance Sheet – Non-major Governmental Funds	26 – 27
Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Non-major Governmental Funds	28 – 29
Combining Statement of Fiduciary Net Assets – Private Purpose Trust Funds	30
Combining Statement of Changes in Fiduciary Net Assets – Private Purpose Trust Funds	31
Statement of Changes in Assets and Liabilities – Agency Fund	32
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 <i>Government Auditing Standards</i>	33 - 34
Schedule of Findings	35

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

**Agency Officials  
For the Year Ended June 30, 2010**

Director	Mr. Erwin McEwen
Executive Deputy Director	Ms. Denise Murray
Chief of Staff	Vacant (June 5, 2008 through current)
Deputy Director and Chief Financial Officer	Mr. Matthew A. Grady III (April 21, 2008 through April 14, 2010) Mr. Robert Stanek (April 14, 2010 through current)
Chief Legal Counsel	Ms. Dixie Peterson

Department administrative offices are located at:

406 East Monroe  
Springfield, IL 62701

## FINANCIAL STATEMENT REPORT

### SUMMARY

The audit of the accompanying financial statements of the State of Illinois, Department of Children and Family Services was performed by Sikich LLP.

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

### SUMMARY OF FINDINGS

The auditors identified matters involving the Department's internal control over financial reporting that they considered to be a significant deficiency. The significant deficiency is described in the accompanying Schedule of Findings listed in the table of contents as finding 10-1, lack of financial reporting review procedures.

### EXIT CONFERENCE

The finding and recommendation appearing in this report were discussed with Department personnel at an exit conference on June 7, 2011. Attending the exit conference were:

#### Department of Children and Family Services

Robert Stanek, Deputy Director and Chief Financial Officer  
Ray Piiparinen, Audit Liaison  
Vicki Libbra, PSA Manager General Accounting  
Denise Caldwell, Deputy Assistant Chief Internal Auditor  
Kevin Milward, Financial Manager

#### Sikich LLP

Thomas Leach, Partner  
Stephen Payton, Manager  
Meredith Angel, Senior Accountant

#### Office of the Auditor General

Courtney Dzierwa, Audit Manager

The response to the recommendation was provided by Robert Stanek, Deputy Director and Chief Financial Officer in correspondence dated June 8, 2011.



132 South Water Street, Suite 300, P.O. Box 1460 Decatur, IL 62525-1460

INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland  
Auditor General  
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the State of Illinois, Department of Children and Family Services, as of and for the year ended June 30, 2010, which collectively comprise the Department of Children 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 Children and Family Services' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

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

In accordance with *Government Auditing Standards*, we have also issued a report dated June 8, 2011, on our consideration of the State of Illinois, Department of Children and Family Services' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

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

*Dikich LLP*

Decatur, Illinois  
June 8, 2011

**State of Illinois  
Department of Children and Family Services**

**Statement of Net Assets and Governmental Funds Balance Sheet**

June 30, 2010 (Expressed in Thousands)

	General Fund 0001	Other Nonmajor Funds	Total Governmental Funds	Adjustments	Statement of Net Assets
<b>ASSETS</b>					
Unexpended appropriations	\$ 56,044	-	\$ 56,044	\$ -	\$ 56,044
Cash equity with State Treasurer	-	41,927	41,927	-	41,927
Cash and cash equivalents	1,083	545	1,628	-	1,628
Due from other government - federal	-	103,387	103,387	-	103,387
Other receivables, net	1,215	-	1,215	-	1,215
Due from other Department funds	-	12	12	(12)	-
Due from other State funds	26	-	26	-	26
Prepaid expenses	-	-	-	28	28
Capital assets being depreciated, net	-	-	-	912	912
<b>Total assets</b>	<b>\$ 58,368</b>	<b>\$ 145,871</b>	<b>\$ 204,239</b>	<b>928</b>	<b>205,167</b>
<b>LIABILITIES</b>					
Accounts payable and accrued liabilities	\$ 39,890	\$ 33,338	\$ 73,228	-	73,228
Intergovernmental payables	1,184	2,219	3,403	-	3,403
Due to other State fiduciary funds	-	93	93	-	93
Due to other Department funds	12	-	12	(12)	-
Due to other State funds	12,318	532	12,850	-	12,850
Due to State of Illinois component units	2,734	5,291	8,025	-	8,025
Unavailable revenue	-	103,387	103,387	(103,387)	-
Deferred revenue	-	38	38	-	38
Long-term obligations:					
Due within one year	-	-	-	1,229	1,229
Due subsequent to one year	-	-	-	23,355	23,355
<b>Total liabilities</b>	<b>56,138</b>	<b>144,898</b>	<b>201,036</b>	<b>(78,815)</b>	<b>122,221</b>
<b>FUND BALANCES/NET ASSETS</b>					
Reserved for encumbrances	148	3,280	3,428	(3,428)	-
Unreserved:					
General fund	2,082	-	2,082	(2,082)	-
Special revenue funds	-	(2,307)	(2,307)	2,307	-
Invested in capital assets, net of related debt	-	-	-	912	912
Restricted net assets	-	-	-	419	419
Unrestricted net assets	-	-	-	81,615	81,615
<b>Total fund balances/net assets</b>	<b>2,230</b>	<b>973</b>	<b>3,203</b>	<b>79,743</b>	<b>81,615</b>
<b>Total liabilities and fund balances</b>	<b>\$ 58,368</b>	<b>\$ 145,871</b>	<b>\$ 204,239</b>	<b>\$ 79,743</b>	<b>\$ 82,946</b>

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

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

<b>Total fund balances-governmental funds</b>	\$	3,203
<p>Amounts reported for governmental activities in the Statement of Net Assets are different because:</p>		
Prepaid expenses for governmental activities are current uses of financial resources for funds		28
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		912
Revenues in the Statement of Activities that do not provide current financial resources are deferred in the funds.		103,387
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		(24,584)
<b>Net assets of governmental activities</b>	<b>\$</b>	<b>82,946</b>

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

**State of Illinois**  
**Department of Children and Family Services**  
**Statement of Activities and Governmental Revenues,**  
**Expenditures, and Changes in Fund Balances**

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

	General Fund 0001	Other Nonmajor Funds	Total Governmental Funds	Adjustments	Statement of Activities
<b>Expenditures/expenses:</b>					
Health and social services	\$ 838,748	\$ 391,647	\$ 1,230,395	\$ 2,130	\$ 1,232,525
<b>Total expenditures/expenses</b>	<u>838,748</u>	<u>391,647</u>	<u>1,230,395</u>	<u>2,130</u>	<u>1,232,525</u>
<b>Program revenues:</b>					
Charges for services:					
Licenses and fees	19	54	73	-	73
Other	12,995	3,695	16,690	-	16,690
Total charges for services	13,014	3,749	16,763	-	16,763
Operating grant revenue:					
Federal	-	369,748	369,748	35,118	404,866
Total operating grant revenue	-	369,748	369,748	35,118	404,866
<b>Net program revenues (expense)</b>	<u>(825,734)</u>	<u>(18,150)</u>	<u>(843,884)</u>	<u>32,988</u>	<u>(810,896)</u>
<b>General revenues:</b>					
Interest and investment income	-	3	3	-	3
Other	190	241	431	-	431
<b>Total general revenues</b>	<u>190</u>	<u>244</u>	<u>434</u>	<u>-</u>	<u>434</u>
<b>Other sources (uses):</b>					
Appropriations from State resources	864,952	-	864,952	-	864,952
Lapsed appropriations	(17,971)	-	(17,971)	-	(17,971)
Receipts collected and transmitted to State Treasury	(13,588)	-	(13,588)	-	(13,588)
Transfers-in	-	17,013	17,013	-	17,013
Transfers-out	(3,270)	(250)	(3,520)	-	(3,520)
<b>Total other sources (uses)</b>	<u>830,123</u>	<u>16,763</u>	<u>846,886</u>	<u>-</u>	<u>846,886</u>
Change in fund balance/net assets	4,579	(1,143)	3,436	32,988	36,424
Fund balance (deficit)/net assets, July 1, 2009	(2,349)	2,116	(233)	46,755	46,522
<b>Fund balance/net assets, June 30, 2010</b>	<u>\$ 2,230</u>	<u>\$ 973</u>	<u>\$ 3,203</u>	<u>\$ 79,743</u>	<u>\$ 82,946</u>

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

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

<b>Net change in fund balances</b>	\$	3,436
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures while the statement of activities reports depreciation expense to allocate those expenditures over the life of the assets. This is the amount by which depreciation exceeded capital outlays in the current period.</p>		(444)
<p>Gains and losses from capital assets no longer in use are not recorded in governmental funds but are reported as other revenues and expenses in the statement of activities. This is the amount of losses on capital assets in the current period.</p>		(17)
<p>Prepaid expenses in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		(52)
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in governmental funds. This amount represents the increase in unavailable revenue over the prior year.</p>		35,118
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. Also some expenditures reported in governmental funds decrease the amount of certain long-term liabilities reported on the Statement of Net Assets and are therefore not reported as expenses in the Statement of Activities.</p>		
<p>Increase in compensated absences obligation</p>		(1,617)
<b>Change in net assets of governmental activities</b>	<b>\$</b>	<b><u>36,424</u></b>

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

**State of Illinois**  
**Department of Children and Family Services**

**Statement of Fiduciary Net Assets**

June 30, 2010 (Expressed in Thousands)

	<b>Private Purpose Trust Funds</b>	<b>Agency Fund Children's Trust Fund 1122</b>
<b>ASSETS</b>		
Cash equity with State Treasurer	\$ -	\$ 735
Cash and cash equivalents	20	3,628
Investments	367	-
Due from other government - federal	-	372
<b>Total assets</b>	<u>387</u>	<u>\$ 4,735</u>
<b>LIABILITIES</b>		
Due to other government - federal	-	127
Other liabilities	-	4,608
<b>Total liabilities</b>	<u>-</u>	<u>\$ 4,735</u>
<b>NET ASSETS</b>		
Held in trust for:		
Individuals, organizations, and other governments	<u>387</u>	
<b>Total net assets</b>	<u>\$ 387</u>	

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

**State of Illinois**  
**Department of Children and Family Services**

---

**Statement of Changes in Fiduciary Net Assets**

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

	<b>Private Purpose Trust Funds</b>
<b>Additions:</b>	
Investment earnings:	
Interest, dividends and other investment income (loss)	\$ 39
<b>Change in net assets</b>	39
Net assets, July 1, 2009	348
<b>Net assets, June 30, 2010</b>	<b>\$ 387</b>

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

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

Notes to Financial Statements

June 30, 2010

**(1) Organization**

The Department of Children 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 the Bail Bonds Fund, the Children and Family Benefit Fund, the General Purpose Fund, the Children's Trust Fund, the Katherine Schaffner Bequest Fund, and the Herrick House Children's Center Bequest Fund.

The Department is organized to provide for social services to children and their families in the State through grants and purchase-of-service arrangements with local service agencies. The mission of the Department is to:

- Protect children who are reported to be abused or neglected and to increase their families' capability to safely care for them;
- Provide for the well-being of children in our care;
- Provide appropriate, permanent families as quickly as possible for those children who cannot safely return home;
- Support early intervention and child abuse prevention activities; and
- Work in partnerships with communities to fulfill this mission.

**(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:

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

Notes to Financial Statements

June 30, 2010

- 1) Appointment of a voting majority of the component unit's board and either (a) the primary government's ability to impose its will, or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or
- 2) Fiscal dependency 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 Children and Family Services, are intended to present the financial position and the changes in financial position of only the portion of the governmental activities, each major fund of the State of Illinois, and the aggregate remaining fund information of the State of Illinois that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2010 and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The financial activities of the Department, which consist only of governmental activities, are reported under the health and social services function in the State of Illinois' Comprehensive Annual Financial Report. For reporting purposes, the Department has combined the fund and government-wide financial statements using a columnar format that reconciles individual line items of fund financial data to government wide data in a separate column. A brief description of the Department's government-wide and fund financial statements is as follows:

**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. The financial activities of the Department consist only of governmental activities, which are primarily supported by taxes and intergovernmental revenues.

The statement of net assets presents the assets and liabilities of the Department's governmental 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 health and social services function of the Department's governmental activities. Direct expenses are those that are clearly identifiable with the health and social services 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

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

Notes to Financial Statements

June 30, 2010

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 and fiduciary - are presented. The emphasis of fund financial statements is on the major governmental fund, which is displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The Department administers the following major governmental fund (or portions thereof in the case of shared funds – see note 2(d)) 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 health and social services. 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 also administers the following fund types:

**Governmental Funds:**

**Special Revenue** – These funds account for resources obtained from specific revenue sources that are legally restricted to expenditures for specified purposes. Special revenue funds account for, among other things, federal grant programs, fees for service, and other resources restricted as to purpose.

**Fiduciary Funds:**

**Private Purpose Trust** – These funds account for resources legally held in trust for use by the Herrick House and the Katherine Schaffner Bequest. All resources of these funds, including any earnings on invested resources, may be used to support the Herrick House and the Katherine Schaffner Bequest. There is no requirement that any portion of these resources be preserved as capital.

**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.

**(c) Measurement Focus and Basis of Accounting**

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. Nonexchange transactions, in which the Department gives (or receives) value without directly receiving (or giving) equal value in exchange, include intergovernmental grants and donations. Revenue from grants, entitlements, and similar items are

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

Notes to Financial Statements

June 30, 2010

recognized in the fiscal year in which all eligibility requirements imposed by the provider have been met.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. 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 payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Significant revenue sources which are susceptible to accrual include federal grants and interest. All other revenue sources including licenses and fees and other miscellaneous revenues 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 financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

***(d) Shared Fund Presentation***

The financial statement presentation for the General Revenue Fund represents 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 December for fiscal year 2010, in accordance with the Statewide Accounting Management System (SAMS) records plus any liabilities relating to obligations re-appropriated to the subsequent fiscal year.

Appropriations from State Resources

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

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

Notes to Financial Statements

June 30, 2010

Lapsed Appropriations

Lapsed appropriations are the legally adopted appropriations less net warrants issued during the 18 month period from July to December 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.

**(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 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 equivalents also include cash on hand and petty cash funds.

**(g) Investments**

Investments are reported at fair value. The Department holds investments pursuant to statutory authority for locally-held funds.

**(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 sheets or the government-wide statements 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.

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

Notes to Financial Statements

June 30, 2010

**Transfers**—flows of assets (such as cash or goods) without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the funds making transfers and as other financing sources in the funds receiving transfers.

The Department also has activity with various component units of the State of Illinois for professional services received and payments of State and Federal programs.

**(i) Capital Assets**

Capital assets, which include buildings 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)
Buildings	\$100,000	10-60
Building Improvements	\$25,000	10-45
Equipment	\$5,000	3-25

**(j) Compensated Absences**

The liability for compensated absences reported in the government-wide 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 costs (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.

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

Notes to Financial Statements

June 30, 2010

**(k) Fund Balances**

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

**(l) Net Assets**

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

***Invested in Capital Assets, Net of Related Debt*** – This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

***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, net of related debt."

**(m) Use of Estimates**

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

**(n) New Accounting Pronouncements**

Effective for the year ending June 30, 2010 the State adopted GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which established guidance for recognition and amortization of intangible assets in the financial statements of governments. There was no significant impact on the Department's financial statements as a result of adopting this statement.

**(o) Future Adoption of GASB Statements**

Effective for the year ending June 30, 2011 the Department will adopt GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which establishes fund balance classifications and clarifies the definitions of fund types. The Department has not yet determined the impact on the Department's financial statements as a result of adopting this statement.

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

Notes to Financial Statements

June 30, 2010

**(3) Deposits and Investments**

**(a) Deposits**

The State Treasurer is the custodian of the Department's deposits and investments for funds maintained in the State Treasury. The Department independently manages deposits and investments maintained outside 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.

**(b) Investments**

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

	<b>Fair Value (Thousands)</b>	<b>Weighted Average Maturity (Years)</b>
<b><i>Fiduciary Funds</i></b>		
Money Market Mutual Funds	\$ 5	0.110
Financial Institution Investment Pool	5,182	0.041
Open-ended Equity Mutual Funds	211	N/A
Open-ended Debt Mutual Funds	138	6.555
Alternative Investments	18	N/A
Less cash equivalents	(5,187)	
<b><i>Total Investments</i></b>	<b><u>\$ 367</u></b>	

**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 Money Market Mutual Funds, Financial Institution Investment Pool and the Open-ended Debt Mutual Funds were not rated.

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

Notes to Financial Statements

June 30, 2010

**(4) Interfund Balances and Activity**

*(a) Balances Due to/from Other Funds*

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

<u>Fund</u>	<u>Due from</u>		<u>Description/Purpose</u>
	<u>Other Department Funds</u>	<u>Other State Funds</u>	
General	\$ -	\$ 26	Due from other State funds for excess advances for reimbursement of grant expenditures to be incurred.
Nonmajor governmental funds	12	-	Due from other Department funds for reimbursement of expenditures incurred.
	<u>\$ 12</u>	<u>\$ 26</u>	

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

Notes to Financial Statements

June 30, 2010

The following balances (amounts expressed in thousands) at June 30, 2010 represent amounts due to other State of Illinois funds.

<u>Fund</u>	<u>Due to</u>			<u>Description/Purpose</u>
	<u>Other Department Funds</u>	<u>Other State Funds</u>	<u>Other State Fiduciary</u>	
General	\$ 12	\$ 12,318	\$ -	Due to State internal service funds for purchases of services and to Department and other State funds for reimbursement of expenditures incurred and transfers to fund mental health programs for children.
Nonmajor governmental funds	-	532	93	Due to State internal service funds for purchases of services and to other State funds for reimbursement of expenditures incurred and for excess advances received for grant expenditures to be incurred and to State fiduciary funds for pension contributions.
	<u>\$ 12</u>	<u>\$ 12,850</u>	<u>\$ 93</u>	

**(b) Transfers to/from Other Funds**

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

<u>Fund</u>	<u>Transfers in from</u>		<u>Description/Purpose</u>
	<u>Other State Funds</u>		
Nonmajor governmental funds	\$ 17,013		Tranfers from other State funds pursuant to statute and for tax check-offs.
	<u>\$ 17,013</u>		

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

Notes to Financial Statements

June 30, 2010

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

<u>Fund</u>	<u>Transfers out to Other State Funds</u>	<u>Description/Purpose</u>
General	\$ 3,270	Transfers to other State funds to fund mental health programs for children.
Nonmajor governmental funds	250	Transfer to other State funds for excess balances.
	\$ 3,520	

**(c) Balances due to State of Illinois Component Units**

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

<u>Component Unit</u>	<u>Due from</u>	
	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>
Chicago State University	\$ 192	\$ 214
Governors State University	634	1,665
Northeastern Illinois University	-	1
Western Illinois University	-	268
Illinois State University	-	34
Northern Illinois University	820	447
Southern Illinois University	630	1,894
University of Illinois	458	768
	\$ 2,734	\$ 5,291



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

Notes to Financial Statements

June 30, 2010

**(7) Long-Term Obligations**

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

	<b>Balance July 1, 2009</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance June 30, 2010</b>	<b>Amounts Due Within One Year</b>
<b>Governmental activities:</b>					
Compensated absences	\$ 22,967	\$ 32,326	\$ 30,709	\$ 24,584	\$ 1,229

Compensated absences will be liquidated in subsequent years by the applicable governmental funds that account for the salaries and wages of the related employees.

**(8) Pension Plan**

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

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

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

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

Notes to Financial Statements

June 30, 2010

**(9) Post-employment Benefits**

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

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

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

**(10) Fund Deficits**

The Federal Projects Fund had a deficit fund balance \$502 thousand at June 30, 2010. The Federal Projects Fund deficit will be eliminated by future recognition of earned but unavailable revenues.

**(11) Risk Management**

The Department is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; aviation liability; auto liability; workers compensation; and natural disasters. The State retains the risk of loss (i.e. self insured) for these risks.

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

Notes to Financial Statements

June 30, 2010

**(12) Commitments and Contingencies**

**(a) Operating leases**

The Department leases copiers and other office equipment, under the terms of noncancelable operating lease agreements 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 \$10.546 thousand for the year ended June 30, 2010.

**(b) Federal Funding**

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

**(c) Litigation**

The Department is routinely involved in a number of other legal proceedings and claims that cover a wide range of matters. In the opinion of management, the outcome of these matters is not expected to have any material adverse effect on the financial position or results of operations of the Department.

**State of Illinois**  
**Department of Children and Family Services**  
**Combining Balance Sheet -**  
**Non-major Governmental Funds**  
 June 30, 2010 (Expressed in Thousands)

		Special Revenue			
		Children's Services Fund 0220	Federal Projects Fund 0566	Special Purpose Fund 0582	Child Abuse Prevention Fund 0934
<b>ASSETS</b>					
Cash equity with State Treasurer	\$	41,378	\$ 92	\$ 228	\$ 229
Cash and cash equivalents		471	-	-	-
Due from other government - federal		102,885	502	-	-
Due from other Department funds		-	-	-	-
<b>Total assets</b>	<b>\$</b>	<b>144,734</b>	<b>\$ 594</b>	<b>\$ 228</b>	<b>\$ 229</b>
<b>LIABILITIES</b>					
Accounts payable and accrued liabilities	\$	33,167	\$ 171	\$ -	\$ -
Intergovernmental payables		1,836	383	-	-
Due to other State fiduciary funds		89	4	-	-
Due to other State funds		529	3	-	-
Due to State of Illinois component units		5,258	33	-	-
Unavailable revenue		102,885	502	-	-
Deferred revenue		-	-	38	-
<b>Total liabilities</b>		<b>143,764</b>	<b>1,096</b>	<b>38</b>	<b>-</b>
<b>FUND BALANCES</b>					
Reserved for encumbrances		3,242	38	-	-
Unreserved, undesignated		(2,272)	(540)	190	229
<b>Total fund balances (deficits)</b>		<b>970</b>	<b>(502)</b>	<b>190</b>	<b>229</b>
<b>Total liabilities and fund balances</b>	<b>\$</b>	<b>144,734</b>	<b>\$ 594</b>	<b>\$ 228</b>	<b>\$ 229</b>

**State of Illinois  
Department of Children and Family Services**

**Combining Balance Sheet -  
Non-major Governmental Funds**

June 30, 2010 (Expressed in Thousands)

	Special Revenue				
	Bail Bond Fund 1119	Children and Family Benefit Fund 1121	General Purpose Fund 1123	Total	
<b>ASSETS</b>					
Cash equity with State Treasurer	-	-	-	-	41,927
Cash and cash equivalents	1	62	11	74	545
Due from other government - federal	-	-	-	-	103,387
Due from other Department funds	-	12	-	12	-
<b>Total assets</b>	<b>1</b>	<b>74</b>	<b>11</b>	<b>86</b>	<b>145,871</b>
<b>LIABILITIES</b>					
Accounts payable and accrued liabilities	-	-	-	-	33,338
Intergovernmental payables	-	-	-	-	2,219
Due to other State fiduciary funds	-	-	-	-	93
Due to other State funds	-	-	-	-	532
Due to State of Illinois component units	-	-	-	-	5,291
Unavailable revenue	-	-	-	-	103,387
Deferred revenue	-	-	-	-	38
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>144,898</b>
<b>FUND BALANCES</b>					
Reserved for encumbrances	-	-	-	-	3,280
Unreserved, undesignated	1	74	11	86	(2,307)
<b>Total fund balances (deficits)</b>	<b>1</b>	<b>74</b>	<b>11</b>	<b>86</b>	<b>973</b>
<b>Total liabilities and fund balances</b>	<b>1</b>	<b>74</b>	<b>11</b>	<b>86</b>	<b>145,871</b>

**State of Illinois  
Department of Children and Family Services**

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

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

	Special Revenue			
	Children's Services Fund 0220	Federal Projects Fund 0566	Special Purpose Fund 0582	Child Abuse Prevention Fund 0934
<b>REVENUES</b>				
Federal government	\$ 365,522	\$ 4,226	\$ -	\$ -
Licenses and Fees	-	-	54	-
Interest and other investment income	-	-	-	3
Other charges for services	3,695	-	-	-
Other	74	-	160	4
<b>Total revenues</b>	<u>369,291</u>	<u>4,226</u>	<u>214</u>	<u>7</u>
<b>EXPENDITURES</b>				
Health and social services	387,616	3,807	71	147
<b>Total expenditures</b>	<u>387,616</u>	<u>3,807</u>	<u>71</u>	<u>147</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<u>(18,325)</u>	<u>419</u>	<u>143</u>	<u>(140)</u>
<b>OTHER SOURCES (USES) OF FINANCIAL RESOURCES</b>				
Transfers-in	17,000	-	-	13
Transfers-out	-	-	-	(250)
<b>Net other sources (uses) of financial resources</b>	<u>17,000</u>	<u>-</u>	<u>-</u>	<u>(237)</u>
<b>Net change in fund balances</b>	<u>(1,325)</u>	<u>419</u>	<u>143</u>	<u>(377)</u>
Fund balances (deficits), July 1, 2009	2,295	(921)	47	606
<b>FUND BALANCES (DEFICITS), JUNE 30, 2010</b>	<u>\$ 970</u>	<u>\$ (502)</u>	<u>\$ 190</u>	<u>\$ 229</u>

**State of Illinois  
Department of Children and Family Services**

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

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

	Special Revenue				
	Bail Bond Fund 1119	Children and Family Benefit Fund 1121	General Purpose Fund 1123	Total	
<b>REVENUES</b>					
Federal government	\$ -	\$ -	\$ -	\$ -	369,748
Licenses and Fees	-	-	-	-	54
Interest and other investment income	-	-	-	-	3
Other charges for services	-	-	-	-	3,695
Other	-	3	-	3	241
<b>Total revenues</b>	-	3	-	3	373,741
<b>EXPENDITURES</b>					
Health and social services	-	6	-	6	391,647
<b>Total expenditures</b>	-	6	-	6	391,647
<b>Excess (deficiency) of revenues over (under) expenditures</b>	-	(3)	-	(3)	(17,906)
<b>OTHER SOURCES (USES) OF FINANCIAL RESOURCES</b>					
Transfers-in	-	-	-	-	17,013
Transfers-out	-	-	-	-	(250)
<b>Net other sources (uses) of financial resources</b>	-	-	-	-	16,763
<b>Net change in fund balances</b>	-	(3)	-	(3)	(1,143)
Fund balances (deficits), July 1, 2009	1	77	11	11	2,116
<b>FUND BALANCES (DEFICITS), JUNE 30, 2010</b>	\$ 1	\$ 74	\$ 11	\$ 11	\$ 973

**State of Illinois**

**Department of Children and Family Services**

---

**Combining Statement of Fiduciary Net Assets -  
Private Purpose Trust Funds**

June 30, 2010 (Expressed in Thousands)

---

	Katherine Schaffner Bequest Fund 1117	Herrick House Children's Center Bequest Fund 1207	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 6	\$ 14	\$ 20
Investments	367	-	367
<b>Total assets</b>	<u>373</u>	<u>14</u>	<u>387</u>
<b>NET ASSETS</b>			
Held in trust for:			
Individuals, organizations, and other governments	373	14	387
<b>Total net assets</b>	<u>\$ 373</u>	<u>\$ 14</u>	<u>\$ 387</u>

**State of Illinois**  
**Department of Children and Family Services**

**Combining Statement of Changes in Fiduciary Net Assets -  
Private Purpose Trust Funds**

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

	Katherine Schaffner Bequest Fund 1117	Herrick House Children's Center Bequest Fund 1207	Total
<b>Additions:</b>			
Investment earnings:			
Interest, dividends and other investment income (loss)	\$ 39	\$ -	\$ 39
<b>Change in net assets</b>	39	-	39
Net assets, July 1, 2009	334	14	348
<b>Net assets, June 30, 2010</b>	<b>\$ 373</b>	<b>\$ 14</b>	<b>\$ 387</b>

**State of Illinois**  
**Department of Children and Family Services**

**Statement of Changes in Assets and Liabilities**  
**Agency Fund**

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

	Children's Trust Fund (1122)			
	Balance July 1, 2009	Additions	Deductions	Balance June 30, 2010
<b>ASSETS</b>				
Cash equity with State Treasurer	\$ 616	\$ 2,509	\$ 2,390	\$ 735
Cash and cash equivalents	3,324	3,044	2,740	3,628
Due from other government - federal	270	3,146	3,044	372
<b>Total assets</b>	<b>\$ 4,210</b>	<b>\$ 8,699</b>	<b>\$ 8,174</b>	<b>\$ 4,735</b>
<b>LIABILITIES</b>				
Due to other government - federal	\$ 23	\$ 2,033	\$ 1,929	\$ 127
Amounts held on behalf of State Wards	4,187	1,232	811	4,608
<b>Total liabilities</b>	<b>\$ 4,210</b>	<b>\$ 3,265</b>	<b>\$ 2,740</b>	<b>\$ 4,735</b>



132 South Water Street, Suite 300, P.O. Box 1460 Decatur, IL 62525-1460

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable William G. Holland  
Auditor General  
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the State of Illinois, Department of Children and Family Services, as of and for the year ended June 30, 2010, which collectively comprise the State of Illinois, Department of Children and Family Services' basic financial statements and have issued our report thereon dated June 8, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the State of Illinois, Department of Children 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, but not for the purpose of expressing an opinion on the effectiveness of the State of Illinois, Department of Children 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 Children and Family Services' internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in finding 10-1 in the accompanying schedule of findings that we consider

to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Illinois, Department of Children 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The State of Illinois, Department of Children and Family Services' response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the State of Illinois, Department of Children and Family Services' response and, accordingly, we express no opinion on it.

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.

*Arkich LLP*

Decatur, Illinois  
June 8, 2011

**State of Illinois**  
**Department of Children and Family Services**

**Schedule of Findings – Government Auditing Standards**  
**Year Ended June 30, 2010**

10-1. **FINDING** (Lack of Financial Reporting Review Procedures)

The Department of Children and Family Services (Department) did not have adequate review procedures in place to ensure the Department's annual financial statements were accurately prepared.

The Department's financial statements were adjusted to correct for the reporting of net assets as a result of our audit. A reclassification in the Department's statement of net assets was made to report net assets invested in capital assets totaling \$912 thousand and to correspondingly decrease the amount previously reported as unrestricted net assets.

The Fiscal Control and Internal Auditing Act (Act) (30 ILCS 10/3001) requires State agencies to establish and maintain a system of internal fiscal and administrative controls, which shall provide assurance that revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources. Good internal control procedures require adequate management oversight and review of accounting policies and procedures as well as an overall review of financial reporting for accuracy and compliance with generally accepted accounting principles.

The errors identified above were an oversight by the Department. Although the Office's records accurately accounted for the above noted items, its internal controls did not provide for detection of the errors by management in its preparation of the Department's financial statements.

Failure to implement appropriate internal control procedures over financial reporting could lead to future misstatements of the Department's financial statements. (Finding Code No. 10-1, 08-1)

**RECOMMENDATION**

We recommend the Department continue in its efforts to implement internal control procedures to assess the risk of material misstatements of the Office's financial statements and to identify such misstatements during the financial statement preparation process.

**AGENCY RESPONSE**

The Department agrees it did not detect the reporting reclassification error in the financial statements prepared by the Comptroller's Office. We concur with the entry to reclassify \$912 thousand from Unrestricted Assets to Net Invested in Capital Assets.