STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY

FINANCIAL AUDIT
For the Year Ended June 30, 2012

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

E.C. ORTIZ & CO., LLP
CERTIFIED PUBLIC ACCOUNTANTS

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
(A Component Unit of the State of Illinois)
FINANCIAL AUDIT
For the Year Ended June 30, 2012

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STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
(A Component Unit of the State of Illinois)

AGENCY OFFICIALS

Executive Director	Mr. Christopher Meister
Assistant Chief Financial Officer	Ms. Ximena Granda
Assistant Treasurer	Ms. Joy Kuhn
General Counsel	Mr. Brendan Cournane (07/01/11 - 12/09/11)
Acting General Counsel	Ms. Pamela Lenane (12/10/11 - current)

Members of the Illinois Finance Authority Board during the period were as follows:

Chairman	William Brandt, Jr.
Member	Dr. William Barclay
Member	Terrence O'Brien
Member	Michael Goetz
Member	Bradley Zeller
Member	Roger Poole
Member	Edward Leonard Sr.
Member	Norman Gold
Member	James Fuentes
Member	Barrett Pedersen
Member	Gila Bronner
Member	Heather Parish
Member	John Durburg (07/01/11 - 03/14/12)
	Vacant (03/15/12 - current)
Member	Vacant (07/01/11 – 10/04/12)
	Lerry Knox (10/05/12 - current)
Member	Vacant (07/01/11 – 10/04/12)
	Mordecai Tessler (10/05/12 - current)

Agency offices are located at:

Chicago Office
180 North Stetson Avenue, Suite 2555
Chicago, Illinois 60601

Mount Vernon Office
2929 Broadway Street, #7B
Mount Vernon, Illinois 62864

Springfield Office
500 East Monroe Street, 3rd Floor
Springfield, Illinois 62701

Peoria Office
100 South West Water Street
Peoria, Illinois 61602

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
(A Component Unit of the State of Illinois)
FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying basic financial statements of the State of Illinois, Illinois Finance Authority (Authority) was performed by E.C. Ortiz & Co., LLP.

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

SUMMARY OF FINDINGS

The auditors identified matters involving the Authority's internal control over financial reporting that they considered to be significant deficiencies. The significant deficiencies are described in the accompanying Schedule of Findings in the table of contents as finding 12-1, *Inadequate Controls over Monitoring Covenant Compliance*, and finding 12-2, *Inadequate Controls over Financial Reporting.*

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with Authority personnel at an exit conference on December 4, 2012. Attending were:

Illinois Finance Authority

Christopher Meister, Executive Director
Ximena Granda, Assistant Chief Financial Officer
Pamela Lenane, Acting Legal Counsel
Frankie Patterson, Accounting Assistant

Audit Committee

Gila Bronner, Chairwoman of the Audit Committee

Office of the Auditor General

Daniel J. Nugent, CPA, Audit Manager

E.C. Ortiz & Co., LLP

Edilberto Ortiz, Partner
Marites Sy, Partner
Analie Hoyle, Manager
Minerva Cariaga, Manager

The responses to the recommendations were provided by Ximena Granda, Assistant Chief Financial Officer, in a letter dated December 5, 2012.

E.C. ORTIZ & CO., LLP
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

Honorable William G. Holland
Auditor General
State of Illinois

and

Ms. Gila Bronner
Chairwoman of the Audit Committee
Illinois Finance Authority

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of the State of Illinois, Illinois Finance Authority, as of and for the year ended June 30, 2012, which collectively comprise the State of Illinois, Illinois Finance Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Illinois, Illinois Finance Authority's 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, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of the State of Illinois, Illinois Finance Authority, as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 7, 2012 on our consideration of the State of Illinois, Illinois Finance Authority's 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

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describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 6 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Illinois, Illinois Finance Authority's basic financial statements. The Combining Statement of Net Assets – Nonmajor Funds on pages 54 through 56, Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets – Nonmajor Funds on pages 57 through 59, and Combining Statement of Cash Flows – Nonmajor Funds on pages 60 through 62 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The Combining Statement of Net Assets – Nonmajor Funds on pages 54 through 56, Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets – Nonmajor Funds on pages 57 through 59, and Combining Statement of Cash Flows – Nonmajor Funds on pages 60 through 62 have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining Statement of Net Assets – Nonmajor Funds on pages 54 through 56, Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets – Nonmajor Funds on pages 57 through 59, and Combining Statement of Cash Flows – Nonmajor Funds on pages 60 through 62 are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

E.C. Ortiz & Co., LLP

E.C. ORTIZ & CO., LLP
December 7, 2012

Basic Financial Statements

In general, the purpose of financial reporting is to provide external parties that read financial statements with information that will help them make decisions or draw conclusions about an entity. There are many external parties that read the Illinois Finance Authority's financial statements; however, these parties do not always have the same specific objectives.

To assure these objectives are met for different parties, Governmental Accounting Standards Board (GASB) Statement 34 generally requires that basic financial statements for governmental entities include both government-wide and fund financial statements. However, for governmental entities which are engaged only in business-type activities accounted for in enterprise funds, GASB Statement 34 requires presentation of fund financial statements only. Governmental reporting standards require an enterprise fund be used to account for an activity if the pricing policies of the activity establish fees and charges designed to recover its costs. Accordingly, as all of the Authority's activities are business-type activities accounted for as enterprise funds, the Authority's financial statements present only the fund financial statements and not government-wide financial statements.

Enterprise fund financial statements are prepared using the accrual method of accounting and consist of a statement of net assets, a statement of revenues, expenses, and changes in fund net assets, and a statement of cash flows.

The Statement of Net Assets presents the financial position of the Authority as of June 30, 2012 and includes all assets and liabilities of the Authority.

The Statement of Revenues, Expenses and Changes in Fund Net Assets present the Authority's results of operations. The Authority's revenues and expenses are classified into three categories operating, nonoperating, or fund transfers.

The Statement of Cash Flows provides additional information about the Authority's financial results by reporting the major sources and uses of the Authority's cash.

The Authority's audited financial statements also include notes to the financial statements, which further explain key information reported in the financial statements.

Condensed Financial Information

The following tables summarize the Authority's financial position and operations for the past two years:

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
(A Component Unit of the State of Illinois)
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012

STATEMENT OF NET ASSETS (IN MILLIONS)	**Business-type Activities**	
	2012	2011
Current assets	$ 131.89	$ 106.96
Noncurrent assets other than capital assets	221.43	269.99
Capital assets	.11	.11
Total assets	353.43	377.06
Current liabilities	40.46	40.46
Noncurrent liabilities	219.95	245.62
Total liabilities	260.41	286.08
Invested in capital assets	.11	.11
Restricted	25.89	24.74
Unrestricted	67.02	66.13
Total net assets	$ 93.02	$ 90.98

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS (IN MILLIONS)

	Business-type Activities	
	2012	2011
Operating revenues	$ 16.55	$ 14.55
Operating expenses	14.98	17.45
Operating income (loss)	1.57	(2.90)
Nonoperating revenue	.46	5.64
Change in net assets	$ 2.03	$ 2.74

Analysis of Overall Financial Position and Results of Operations

The decrease in total assets and total liabilities in fiscal year 2012 occurred because investments held in custodial accounts in the bond fund matured and were used to pay a portion of principal due on the bonds issued for the benefit of other agencies and component units of the State of Illinois and bonds issued under the Authority's local government bond bank program.

Operating revenues increased in 2012 mainly due to the Authority recovering debts of $1.75 million previously written off as bad debts and the receipt of $1.58 million from several settlement funds established under agreements to settle complaints filed by the Securities and Exchange Commission and various state attorney generals in connection with the marketing and sale of certain financial products. These increases were offset by a $2.09 million decline in application, annual and administrative service fees. The reduction in service fees was caused by the reduced demand for the Authority's services due to the economic downturn and historically low interest rate environment. Similarly, the Authority's operating expenses also declined in 2012 due to a reduction in interest payments from fiscal year 2011 due to the Authority's annual sinking fund redemption of its long-term debt, the continued reduction in employee related expenses, and the reduction of loan losses due to improvement in the quality of the Authority's loan portfolio.

The decrease in nonoperating income in fiscal year 2012 was primarily due to: (i) the further decline in the value reported in the Authority's Venture Capital investments, (ii) the permanent transfer of capital authorized by a Public Act 97-654 of the Illinois General Assembly related to assets held in the Authority's Employee Ownership Assistance Program, and (iii) a decline in investment income reflecting a decline in investment balances coupled lower interest rates.

Financial Analysis of the Authority's Funds

The Authority has three major enterprise funds.

General Operating Fund – The General Operating Fund which receives all revenues from program activities, except for those monies required to be reported in a separate fund. All administrative expenses relating to establishing and managing the Authority's programs except for those expenditures required to be paid from a separate fund are paid from this fund. During fiscal year 2012, unrestricted General Operating Fund Net Assets increased by $4.10 million to $47.62 million. The primary reasons for this increase in net assets were: (i) better than expected results in the Authority's operations due to the improved credit quality of the Authority's loan portfolio, and (ii) the receipt of $1.58 million from several settlement funds established under agreements to settle complaints filed by the Securities and Exchange Commission and various state attorney generals in connection with the marketing and sale of certain financial products.

The following table summarizes the results of operations of the Authority's General Operating Fund, in millions, for the past two years.

	General Operating Fund	
	2012	2011
Operating revenues	$ 7.72	$ 6.54
Operating expenses	3.83	5.00
Operating income	3.89	1.54
Nonoperating revenues	.02	.03
Transfers from other funds	.19	1.17
Change in net assets	$ 4.10	$ 2.74

Bond Fund – The purpose of the fund is to account for bond proceeds and related assets for the Authority bonds issued on behalf of agencies and component units of the State of Illinois as well as bonds issued under the Authority's local government bond bank program. More specifically, the Bond Fund receives bond proceeds, holds custodial accounts relating to certain funds pledge to secure these bonds, purchase participating institutions securities and remit bond issuance costs paid for with bond proceeds. The fund also collects interest and principal payments from the participating institutions and makes payments and interest on the bonds payable. During fiscal year 2012, the restricted fund net assets in this fund increased by $0.11 million to $1.96 million. The increase was primarily due to annual fees of $.06 million which were retained within the bond fund. The following table summarizes the results of operations of the Authority's Bond Fund, in millions, for the past two years.

	Bond Fund	
	2012	2011
Operating revenues	$ 8.77	$ 7.90
Operating expenses	11.13	12.39
Operating loss	(2.36)	(4.49)
Nonoperating revenue	2.47	4.58
Change in net assets	$ .11	$ .09

Venture Investment Fund - The Venture Investment Fund is used to account for the activities of the Illinois Venture Investment Fund Program. This program was established to provide seed and investment capital to induce enterprises to remain, expand, and locate in Illinois. During fiscal year 2012, the remaining unrestricted fund net assets written down to $0 reflecting suspension of the Illinois Venture Investment Fund Program and liquidation of the salable remaining fund investments. The following table summarizes the results of operations of the Authority's Venture Capital Fund, in millions, for the past two years.

	Venture Capital Fund	
	2012	2011
Operating revenues	$ -	$ -
Operating expenses	-	-
Operating income	-	-
Nonoperating revenue (expense)	(2.07)	.90
Transfers to other funds	(.18)	(1.17)
Change in net assets	$ (2.25)	$ (.27)

Nonmajor Funds

In accordance with Generally Accepted Accounting Principles, the Authority also reports the aggregate net assets, revenues, expenses and changes in fund net assets and cash flows of its nonmajor funds. During fiscal year 2012, these funds together reported an increase in fund net assets of $.08 million. This increase was due to positive operating results.

As of June 30, 2012, the Authority's nonmajor funds in aggregate reported unrestricted net assets of $19.41 million and restricted net assets of $23.93 million. The majority of the restricted net assets held by the Authority's nonmajor funds were restricted to secure State loan guarantees.

Discussion of Significant Capital Assets and Long-Term Debt Activity

Capital Assets

The Authority has established a policy of capitalizing assets as described in Note 2(j) to the financial statements. The Authority's investment in capital assets, net of accumulated depreciation, for business-type activities as of June 30, 2012 was $0.11 million.

Additional information about capital assets are described under Note 12 to the financial statements.

Long-Term Debt

The Authority issues long-term debt on behalf of third-party entities to convey tax-exempt municipal bond status to provide lower cost financing for capital projects undertaken by businesses, agribusinesses, health care facilities, educational facilities, municipalities, and other organizations in order to stabilize and strengthen the Illinois economy through job creation and retention. Approximately $24.50 billion (99.07%) of the Authority's $24.73 billion debt is classified as conduit debt. 1,617 (98.36%) of the Authority's 1,644 bonds outstanding are conduit bond issues.

Under Generally Accepted Accounting Principles, conduit debt refers to certain limited-obligation revenue bonds issued for the express purpose of providing capital financing for a specific third party. The underlying Borrower is solely responsible for repayment of the conduit bonds. All of the Authority's conduit debt is payable solely from revenues or funds pledged or available for their repayment as authorized by the Illinois Finance Authority Act (20 ILCS 3501/801 et seq.). Neither the full faith nor credit of the Authority or the State of Illinois, nor the taxing power of the State, is pledged to secure payment of the principal or interest on these bonds. In accordance with Generally Accepted Accounting Principles, the Authority's conduit debt obligations are not reported as liabilities in the Authority's basic financial statements. The Authority issued 37 separate conduit debt issues in fiscal year 2012 with an aggregate principal amount of $1.97 billion. As of June 30, 2012, the aggregate amount of conduit debt outstanding is approximately $24.50 billion.

The Authority also issues revenue bonds to facilitate borrowings for capital asset projects by other agencies and component units of the State of Illinois. Examples of these bonds include revenue bonds issued on behalf of the Northern Illinois University, the Northern Illinois University Foundation, the Illinois Environmental Protection Agency, and the Illinois Medical District Commission.

Although these debts issues are conduit bonds (in that the underlying State agency or component unit is the sole obligor), because these bonds are issued for the benefit of third parties that, along with the Authority, are component financial reporting entities of the State of Illinois financial reporting entity, these bond issues are not considered conduit debt under Generally Accepted Accounting Principles and thus are reported as liabilities on the Authority's basic financial statements. The Authority did not issue any revenue bonds for the benefit of other State of Illinois agencies or component units during fiscal year 2012. As of June 30, 2012, the aggregate amount of intra-state debt outstanding is $181.31 million.

The Illinois Finance Authority Act (20 ILCS 3501/801-40(w)) also allows the Authority to issue revenue bonds with the State's moral obligation or additional security attached. This pledge states that in the event that borrower funds are not be available for the payment of principal and interest, the Authority is required to notify the Governor of the State of Illinois in writing. The Governor is required to request an appropriation from the General Assembly in an amount sufficient to cover this shortfall.

The Authority did not issue any revenue bond secured with the State's moral obligation in fiscal year 2012. As of June 30, 2012, the aggregate amount of revenue bonds with the State's moral obligation attached is $42.13 million. In August 2012, Standards and Poor's downgraded the ratings on revenue bonds secured by the State of Illinois moral obligation to "BBB" from "BBB+". Because the General Assembly is not required to fund any shortfall for bonds secured by a Moral Obligation pledge, the rating agencies rate Moral Obligation Bonds less favorably than General Obligation Bonds issued by the state.

In addition to its revenue bonds, the Authority also has outstanding loans with the U.S. Department of Agriculture for $0.55 million and with the State of Illinois for $16.81 million. These loans were incurred to provide the funding for the Authority's Rural Development Loan Program and the Fire Truck and Ambulance Revolving Loan Programs.

Additional information about long-term debt can be found in Note 2(p), Note 9 and Note 10 to the financial statements.

Relevant Current Economic Factors, Decisions and Conditions

The Authority continues to face a number of challenges, including but not limited to:

a) the uncertainty in the recovery of the economy and the impact of the federal policy issues, including prospective budget sequestration effective January 1, 2013 or any other substantive spending reductions affecting healthcare, higher education, tax reform, healthcare reform or other budgetary items that directly affect Authority's borrowers;
b) the reduction of tax-exempt municipal bond issuance volume compared to pre-recession levels posted in 2007 and earlier. The Authority has successfully managed through this challenge by effectively controlling operating expenses; and,
c) competition from out-of-State issuers and regional development authorities that avoid the full cost of accountability and transparency imposed by the Illinois General Assembly on the Authority. The Authority and its predecessor have competed with other issuers since their creation by the Illinois General Assembly. Although the Authority has routinely lost business opportunities to these issuers, it has not adversely affected the Authority's revenues or operations.

During the audit period, the Authority has maintained both a strong balance sheet and the broad statutory authority necessary to manage these challenges by developing and implementing new products that generate revenues consistent with the Authority's public mission. Also during the audit period, the Authority reduced risk to its balance sheet and that of the State of Illinois by over $54 million through elimination of a $13.7 million State guarantee, the recovery of $1.75 million in previously written-off bad debt, and through the financial stabilization of $39.12 million moral obligation guarantee.

In July 2012, the Authority completed its strategic planning process and set forth four strategic goals:

a) strengthen and diversify product offering;
b) improve stewardship of financial and human resources;
c) expand partnership with Governor and intergovernmental relations; and,
d) enhance accountability, transparency and availability of information.

The Authority's 2012 Strategic Plan has established a four-point framework by which to evaluate new program and business opportunities:

a) appropriateness to public mission;
b) evaluation of risk vs. return;
c) evaluation of competitive position; and,
d) forecast net revenue impact.

Through this framework, the Authority's Board of Directors and staff continue to examine and develop new programs to optimally deploy the Authority's balance sheet assets consistent with attaining the Authority's statutory mission, while maintaining its non-appropriated, self-funding operating model.

Finally, the Authority has appropriately divested all assets held in its Venture Investment Fund, thereby removing future monitoring and required valuation studies that exceeded the market value of the remaining portfolio.

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
(A Component Unit of the State of Illinois)
Statement of Net Assets
June 30, 2012

Assets	General Operating Fund	Bond Fund	Venture Capital Fund	Nonmajor Funds	Total
Current assets:					
Cash and cash equivalents - unrestricted	$ 42,523,391	$ -	$ -	$ 16,186,529	$ 58,709,920
Investments - unrestricted	85,000	-	-	-	85,000
Restricted current assets					
Cash and cash equivalents	-	41,553,244	-	3,326,547	44,879,791
Securities lending collateral equity with State Treasurer	-	-	-	8,336,463	8,336,463
Accrued interest receivable	-	1,395,979	-	4,564	1,400,543
Restricted investments	-	725,443	-	-	725,443
Bonds and notes receivable	-	3,080,600	-	-	3,080,600
Bonds and notes receivable from primary government	-	9,277,500	-	-	9,277,500
Bonds and notes receivable from component units of State	-	900,120	-	-	900,120
Loans receivable	-	-	-	1,551,263	1,551,263
Allowance for doubtful accounts	-	-	-	(91,484)	(91,484)
Due from other funds	-	-	-	1,500,000	1,500,000
Current portion of deferred issuance costs	-	15,591	-	-	15,591
Receivables:					
Accounts	68,610	20,831	-	-	89,441
Allowance for doubtful accounts	(24,789)	-	-	-	(24,789)
Loans receivable	736,223	-	-	29,604	765,827
Interest and other	42,449	-	-	1,108	43,557
Current portion of deferred issuance costs	43,062	-	-	-	43,062
Due from other funds	570,196	-	-	-	570,196
Prepaid expenses and deposits	34,187	-	-	-	34,187
Total current assets	44,078,329	56,969,308	-	30,844,594	131,892,231
Noncurrent assets:					
Restricted noncurrent assets					
Cash and cash equivalents	-	-	-	18,386,285	18,386,285
Interest receivable	-	-	-	6,000	6,000
Guarantee payments receivable	-	-	-	822,411	822,411
Allowance for doubtful accounts	-	-	-	(822,411)	(822,411)
Deferred issuance costs, net of accumulated amortization	-	67,657	-	-	67,657
Investments	-	59,828,824	-	-	59,828,824
Bonds and notes receivable	-	31,563,337	-	-	31,563,337
Bonds and notes receivable from primary government	-	39,859,599	-	-	39,859,599
Bonds and notes receivable from component units of State	-	45,482,309	-	-	45,482,309
Loans receivable	-	-	-	17,197,198	17,197,198
Allowance for doubtful accounts	-	-	-	(15,904)	(15,904)
Loans receivable	7,094,643	-	-	3,188,819	10,283,462
Allowance for doubtful accounts	(1,433,625)	-	-	-	(1,433,625)
Capital assets, at cost	543,166	-	-	-	543,166
Accumulated depreciation	(434,833)	-	-	-	(434,833)
Deferred issuance costs, net of accumulated amortization	203,545	-	-	-	203,545
Total noncurrent assets	5,972,896	176,801,726	-	38,762,398	221,537,020
Total assets	50,051,225	233,771,034	-	69,606,992	353,429,251

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
(A Component Unit of the State of Illinois)
Statement of Net Assets (continued)
June 30, 2012

	General Operating Fund	Bond Fund	Venture Capital Fund	Nonmajor Funds	Total
Liabilities					
Current liabilities:					
Accounts payable	7,686	41,305	-	-	48,991
Accrued expenses	182,951	-	-	-	182,951
Obligation under securities lending of State Treasurer	-	-	-	8,336,463	8,336,463
Accrued interest payable	-	3,954,309	-	2,727	3,957,036
Due to employees	74,081	-	-	-	74,081
Due to primary government	199,277	134,166	-	1,350,727	1,684,170
Bonds payable, current	-	3,120,000	-	-	3,120,000
Bonds payable, primary government	-	18,555,000	-	-	18,555,000
Bonds payable, component units of State	-	1,580,120	-	-	1,580,120
Current portion of long-term debt	-	-	-	58,220	58,220
Deferred loss on early extinguishment of debt	-	(8,852)	-	-	(8,852)
Unamortized issuance premium, current	-	738,927	-	-	738,927
Due to other funds	1,500,000	-	-	570,196	2,070,196
Deferred revenue, net of accumulated amortization	61,375	-	-	-	61,375
Total current liabilities	2,025,370	28,114,975	-	10,318,333	40,458,678
Noncurrent liabilities:					
Noncurrent portion of long-term debt	-	-	-	487,273	487,273
Accrued expenses	-	1,147,264	-	-	1,147,264
Bonds payable, noncurrent	-	39,010,000	-	-	39,010,000
Bonds payable, primary government	-	107,770,000	-	-	107,770,000
Bonds payable, component units of State	-	53,405,800	-	-	53,405,800
Deferred revenue, net of accumulated amortization	302,261	-	-	-	302,261
Due to primary government	-	-	-	15,461,430	15,461,430
Unamortized issuance premium	-	2,424,958	-	-	2,424,958
Deferred loss on early extinguishment of debt	-	(57,731)	-	-	(57,731)
Total noncurrent liabilities	302,261	203,700,291	-	15,948,703	219,951,255
Total liabilities	2,327,631	231,815,266	-	26,267,036	260,409,933
Net Assets					
Invested in capital assets	108,333	-	-	-	108,333
Restricted	-	1,955,768	-	23,933,896	25,889,664
Unrestricted	47,615,261	-	-	19,406,060	67,021,321
Total net assets	$ 47,723,594	$ 1,955,768	$ -	$ 43,339,956	$ 93,019,318

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
(A Component Unit of the State of Illinois)
Statement of Revenues, Expenses, and Changes in Fund Net Assets
For the Year Ended June 30, 2012

	General Operating Fund	Bond Fund	Venture Investment Fund	Nonmajor Funds	Total
Operating revenues:					
Interest on loans	$ 465,282	$ -	$ -	$ 60,322	$ 525,604
Interest on loans (security for revenue bonds)	-	8,717,208	-	-	8,717,208
Application fees	43,150	-	-	-	43,150
Annual fees	485,517	53,913	-	-	539,430
Administrative service fees	2,765,760	-	-	-	2,765,760
Bad debt recoveries	1,746,322	-	-	-	1,746,322
Loan loss provision	563,790	-	-	-	563,790
Miscellaneous	1,647,418	-	-	5,015	1,652,433
Total operating revenues	7,717,239	8,771,121	-	65,337	16,553,697
Operating expenses:					
Employee related expenses	1,790,048	-	-	-	1,790,048
Professional services	1,359,507	80,317	-	7,669	1,447,493
Depreciation	44,470	-	-	-	44,470
Occupancy costs	331,014	-	-	-	331,014
Interest expense	-	11,051,886	-	5,743	11,057,629
General and administrative	306,628	-	-	-	306,628
Total operating expenses	3,831,667	11,132,203	-	13,412	14,977,282
Operating income (loss)	3,885,572	(2,361,082)	-	51,925	1,576,415
Nonoperating revenues (expenses):					
Permanent capital transfers	-	-	-	(1,000,000)	(1,000,000)
Transfer of interest in program to State of Illinois	-	-	-	(561,793)	(561,793)
Grant income	-	-	-	1,500,000	1,500,000
Interest and investment income	20,474	2,467,123	8,418	99,337	2,595,352
Loss on sale of investments	-	-	(2,074,810)	-	(2,074,810)
Total nonoperating revenues (expenses)	20,474	2,467,123	(2,066,392)	37,544	458,749
Transfers					
Transfers from other funds	190,089	-	-	-	190,089
Transfers to other fund	-	-	(181,589)	(8,500)	(190,089)
Total transfers	190,089	-	(181,589)	(8,500)	-
Change in net assets	4,096,135	106,041	(2,247,981)	80,969	2,035,164
Net assets - beginning of year	43,627,459	1,849,727	2,247,981	43,258,987	90,984,154
Net assets - end of year	$ 47,723,594	$ 1,955,768	$ -	$ 43,339,956	$ 93,019,318

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
(A Component Unit of the State of Illinois)
Statement of Cash Flows
For the Year Ended June 30, 2012

	General Operating Fund	Bond Fund	Venture Investment Fund	Nonmajor Funds	Total
Cash flows from operating activities:					
Cash received for fees and other	$ 4,860,502	$ 53,082	$ -	$ -	$ 4,913,584
Cash payments for employee services	(1,811,415)	-	-	-	(1,811,415)
Cash payments to suppliers for goods and services	(2,166,837)	(58,400)	-	(7,669)	(2,232,906)
Net cash provided by (used in) operating activities	882,250	(5,318)	-	(7,669)	869,263
Cash flows from noncapital financing activities:					
Bonds and notes principal payments	-	(26,556,088)	-	(57,644)	(26,613,732)
Interest payments	-	(12,365,058)	-	(6,032)	(12,371,090)
Principal paid to State	-	-	-	(1,506,664)	(1,506,664)
Grants received	-	-	-	1,500,000	1,500,000
Transfer of interest in program to State of Illinois	-	-	-	(561,793)	(561,793)
Due from other funds	(570,196)	-	-	(1,540,644)	(2,110,840)
Due to other funds	1,500,000	-	-	610,840	2,110,840
Transfers from other funds	190,089	-	-	-	190,089
Transfers to other fund	-	-	(181,589)	(8,500)	(190,089)
Net cash provided by (used in) noncapital financing activities	1,119,893	(38,921,146)	(181,589)	(1,570,437)	(39,553,279)
Cash flows from capital and related financing activity:					
Purchase of capital assets	(39,722)	-	-	-	(39,722)
Net cash used in capital and related financing activity	(39,722)	-	-	-	(39,722)
Cash flows from investing activities:					
Purchase of investments	-	(64,043,273)	-	-	(64,043,273)
Maturity and sales of investments	-	95,543,742	173,171	-	95,716,913
Interest and dividends on investments	20,474	2,758,892	8,418	101,174	2,888,958
Cash received for interest on loans	494,339	8,875,072	-	60,836	9,430,247
Cash received on loan receivables and guarantees	9,127,949	25,044,451	-	1,662,283	35,834,683
Net cash provided by investing activities	9,642,762	68,178,884	181,589	1,824,293	79,827,528
Net increase in cash and cash equivalents	11,605,183	29,252,420	-	246,187	41,103,790
Cash and cash equivalents at beginning of year	30,918,208	12,300,824	-	37,653,174	80,872,206
Cash and cash equivalents at end of year	$ 42,523,391	$ 41,553,244	$ -	$ 37,899,361	$ 121,975,996
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:					
Operating income (loss)	$ 3,885,572	$ (2,361,082)	$ -	$ 51,925	$ 1,576,415
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	44,470	-	-	-	44,470
Interest on loans	(465,282)	(8,717,208)	-	(60,322)	(9,242,812)
Interest expense	-	11,051,886	-	5,743	11,057,629
Amortization of bond issuance costs	50,733	18,584	-	-	69,317
Amortization of deferred revenue	(71,394)	-	-	-	(71,394)
Bad debt recoveries	(1,746,322)	-	-	-	(1,746,322)
Loan loss provision	(563,790)	-	-	-	(563,790)
Changes in assets and liabilities:					
Accounts receivable	(9,950)	(831)	-	(5,015)	(15,796)
Other liabilities	(723)	-	-	-	(723)
Prepaid expenses and deposits	193,825	-	-	-	193,825
Accounts payable and accrued expenses	(413,520)	3,333	-	-	(410,187)
Due to employees	(21,369)	-	-	-	(21,369)
Net cash provided by (used in) operating activities	$ 882,250	$ (5,318)	$ -	$ (7,669)	$ 869,263
Noncash investing activities					
Change in fair value of investments	$ -	$ 159,022	-	$ -	$ 159,022

(1) ORGANIZATION

The Illinois Finance Authority (Authority) is a body politic and corporate created July 17, 2003 by Public Act 93-205, effective January 1, 2004. Public Act 93-205 consolidated seven of the State's existing finance authorities into the Authority. The Authority succeeded to the rights and duties of the existing finance authorities as of January 1, 2004. Public Act 93-205 also repealed the existing finance authorities' authorizing legislation.

The mission of the Authority as statutorily defined in the Illinois Finance Authority Act (20 ILCS 3501/801 et. seq.) is to foster economic development to the public and private institutions that create and retain jobs, and improve the quality of life in Illinois by providing access to capital.

The Authority is a body corporate and politic, of the State of Illinois. The Authority is governed by a 15-member board of directors, appointed by the Governor with the advice and consent of the Senate. As specified in the Illinois Finance Authority Act (20 ILCS 3501/845-5), the amount of bonds issued by the Authority cannot exceed $28,150,000,000.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Financial Reporting Entity

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

(1) Appointment of a voting majority of the component unit's board and either (a) the primary government's ability to impose its will on the component unit 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.

For financial reporting purposes, the Authority is a component unit of the State of Illinois. The Authority does not treat any other reporting entities as component units.

(b) Basis of Presentation

The accounts of the Authority are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenses, as appropriate. The emphasis on fund financial statements is on a major proprietary fund (enterprise), with each fund displayed in a separate column. All remaining proprietary funds are aggregated and reported as nonmajor funds. The Authority has the following major proprietary funds:

<u>General Operating Fund</u> - The operating fund of the Authority which receives all revenues from program applications. All administrative expenses for establishing and monitoring the Authority's programs are paid out of this fund as set forth in Illinois Finance Authority Act (20 ILCS 3501/801-40(j)).

<u>Bond Fund</u> - Each bond issue is comprised of several accounts as required by the bond indenture. The accounts of all the issues have been aggregated and reported as the Bond Fund. These are non-appropriated accounts maintained by the trustee. The purpose of the fund is to collect bond proceeds, purchase participating institutions securities and remit bond issuance costs paid for with bond proceeds. The fund also collects interest and principal payments from the participating institutions and makes payments and interest on the bonds payable.

<u>Venture Investment Fund</u> - The Illinois Venture Investment Fund Program was established to provide seed and investment capital to induce enterprises to remain, expand, and locate in Illinois. It was created by statue with appropriations from the State of $2,000,000. This fund is used to account for the activities of this program. As discussed in Note 7, during fiscal year 2012, the Authority sold all of its salable portfolio interests in this fund.

(c) Basis of Accounting

The Authority's 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.

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

(d) Cash and Cash Equivalents

For the purposes of the statements of cash flows, all highly liquid investments with a maturity of three months or less when purchased are considered cash equivalents.

(e) Restricted Assets

Certain resources have been classified as restricted assets on the statement of net assets because their use is limited by applicable bank and loan agreements. See notes on cash and investments (Note 3), long-term obligations (Note 9), revenue bonds payable (Note 10) and commitments and contingencies (Note 13) for additional disclosures.

(f) Investments

Investments in marketable securities are reported at fair value based on quoted market prices. Investments in venture capital companies are reported at fair value based upon the lower of cost or estimated market value. Investment contracts are considered to be Guaranteed Investment Contracts. These contracts are reported at fair value based on quoted market prices.

(g) Deferred Issuance Costs, Issuance Premium and Deferred Revenue

The Authority is amortizing issuance costs, issuance premiums and fee revenue from bond issues over the life of the bond issues using the approximate effective interest method. Amounts are presented net of accumulated amortization in the Statement of Net Assets.

(h) Deferred Loss on Early Extinguishment

The Authority is amortizing a loss on the refunding of several of its non-asset bonds in the Bond Fund over the lesser of the term of the old debt or the new debt using the straight-line method. The unamortized loss is presented as a contra liability to the new debt.

(i) Interfund Transactions

The Authority has the following types of interfund transactions:

Loans and Advances - amounts provided with a requirement for repayment. Interfund loans are reported as interfund receivables (i.e. due from other funds) in lender funds and interfund payables (i.e. due to other funds) in borrower funds.

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

Transfers - amounts provided to other funds which will not be repaid.

(j) Capital Assets

Capital assets, which include property and equipment, are reported at historical cost. Capital assets are depreciated using the straight-line method. Depreciation of property and equipment used by the Authority is charged as an expense against the Authority's General Operating Fund. Capital assets and accumulated depreciation is reported in Note 12 to the financial statements.

Capitalization thresholds and the estimated useful lives are as follows:

Furniture and equipment	\$500	5 years
Computer equipment	\$5,000	5 years
Software	\$10,000	3 years

(k) Vacation and Sick Leave

Effective July 1, 2011, a new vacation and sick leave pay policy was implemented. Under the new policy, the Authority's employees earn vacation pay at a rate based upon the employee's length of service with the Authority. Vacation time is accrued monthly and employees are allowed to accumulate vacation time up to one and half times their annual vacation allowance. Once an employee has accumulated the maximum amount of vacation days, the employee will no longer accrue any further vacation days. Vacation days will resume accruing once the employee uses accumulated vacation days.

Earned vacation days are accrued at fiscal year-end for financial statement purposes and recorded as due to employees in the Statement of Net Assets under the General Operating Fund. Sick leave earned by employees must be taken during the fiscal year and cannot be accumulated and carried over to the next fiscal year.

Activity related to accrued vacation leave for the year ended June 30, 2012, consisted of the following:

Balance June 30, 2011	Earned	Paid	Balance June 30, 2012	Due Within One Year
$ 95,450	$ 72,385	$ 93,754	$ 74,081	$ 74,081

(l) Termination Benefits

Separation agreements the Authority agreed to with two employees granted them severance benefits. These benefits include continued payments of the employee's salary and health premiums for several months. The cost has been calculated based on the employee's last salary amount and includes salary related costs (e.g. Social Security and Medicare tax). The total cost of termination benefits incurred during fiscal year 2012 is $15,341.

(m) Net Assets

In the financial statements, net assets are displayed in three components as follows:

Invested in Capital Assets - 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 these 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 Authority's policy to use restricted resources first, then unrestricted resources when they are needed. As of June 30, 2012, the Authority had restricted net assets of $25,889,664 of which $17,783,035 is restricted by enabling legislation.

Unrestricted - This consists of net assets that do not meet the definition of "restricted" or "invested in capital assets."

(n) Classification of Revenues

The Authority has classified its revenues as either operating or nonoperating. Operating revenue includes activities that have the characteristics of exchange transactions including interest on loans, application fees, annual fees, and administrative service fees. Nonoperating revenue includes activities that have the characteristics of nonexchange transactions or activities that are ancillary to the operations of the Authority including interest and investment income.

(o) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

(p) Conduit Debt Obligations

In accordance with the Illinois Finance Authority Act (20 ILCS 3501/801-40(c)), the Authority issues limited obligation revenue bonds and participate in lending and leasing agreements to provide low cost financing to businesses, agribusinesses, health care facilities, educational facilities, municipalities, and other organizations in order to stabilize and strengthen the Illinois economy in areas of job creation and job retention. The bonds and leases are secured by the property financed. Upon repayment of the debt, ownership of the acquired facilities transfers to the entity served by the issuance. Neither the Authority, State, nor any political subdivision thereof is obligated in any manner for repayment of the debt. Accordingly, the bonds and leases are not reported as liabilities in the Authority's basic financial statements. As of June 30, 2012, the aggregate amount of conduit debt outstanding is approximately $24.50 billion.

(q) Adoption of New Accounting Principles

The Authority implemented the following Governmental Accounting Standards Board (GASB) Statements effective July 1, 2011: Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans,* Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions-an amendment of GASB Statement No. 53*.

(3) CASH AND INVESTMENTS

Cash and Investments as of June 30, 2012 are classified in the accompanying basic financial statements as follows:

Cash and cash equivalents - unrestricted	$ 58,709,920
Cash and cash equivalents - restricted current assets	44,879,791
Cash and cash equivalents - restricted noncurrent assets	18,386,285
Investments - unrestricted	85,000
Investments - restricted current assets	725,443
Investments - restricted noncurrent assets	59,828,824
Total	$182,615,263

Cash and investments as of June 30, 2012 consist of the following:

Deposits with financial institutions	$ 3,525,483
Deposits with State of Illinois Treasurer	17,777,035
Investments	161,312,745
Total	$ 182,615,263

The Authority is permitted by Illinois Finance Authority Act (20 ILCS 3501/801-30(a)) and by its investment policy to invest any of its funds in:

(a) Federal Government Securities, including securities of the federal agencies.
(b) Securities guaranteed by the federal government.
(c) Savings accounts, certificates of deposit, time deposits in banks or savings and loans insured by the Federal Deposit Insurance Corporation (FDIC) and any deposits in excess of amounts insured by the FDIC are collateralized.
(d) Short-term obligations of U.S. corporations with assets exceeding $500,000,000 and rated investment grade and which mature not later than 180 days from the date of purchase, provided that such obligations do not exceed 10% of the corporation's outstanding obligations and no more than one-third of the Authority's funds are invested in such obligations.
(e) Money market mutual funds registered under the Investment Company Act of 1940 provided the portfolio is limited to either U.S. government or government-backed securities.
(f) Shares of other forms of securities legally issued by savings banks or savings and loan associations, if such securities are insured by the FDIC.
(g) Dividend-bearing share accounts, share certificate accounts or class of share accounts of a credit union, if insured under applicable law.

(h) The Illinois Funds.
(i) A fund managed, operated, and administered by a bank, subsidiary of a bank, or subsidiary of a bank holding company or uses the services of such an entity to hold and invest or advise regarding the investment.
(j) Repurchase agreements of government securities.

In addition, the Authority is authorized by its enabling legislation to invest in obligations issued by any State, unit of local government, or school district that carry investment grade ratings, and equity securities of a registered investment company.

The Authority's investment policy excludes funds committed to credit enhancement, federally assisted programs and funds held by bond trustees that are governed by the provisions of bond agreements. The allowable investments are as follows:

Credit Enhancement Funds

Moneys in this fund are invested or reinvested by the Trustee in permitted investments as defined in the applicable Trust Indenture. The permitted investments include direct obligations of the United States of America; obligations, debentures, notes, or other evidences of indebtedness issued or guaranteed; New Housing Authority Bonds or Project Notes issued by public agencies or municipalities; interest-bearing demand or time deposits in banks or savings and loan associations insured by the Federal Deposit Insurance Corporation; the Illinois Funds; repurchase agreements with banks which are members of the federal reserve system or with government bond dealers; and obligations issued by or on behalf of a state or political subdivision.

Federally Assisted Programs

Federally assisted program fund reserves and other cash shall be deposited in accounts in banks or other financial institutions. Such accounts will be fully covered by Federal Deposit Insurance Corporation or fully collateralized with U.S. Government Obligations, and must be interest-bearing.

Bond Funds

Investment of bond funds shall be made in investment obligations, including federal securities; bonds, notes, debentures, or similar obligations; interest-bearing savings accounts, interest-bearing certificates of deposit or interest-bearing deposits or any other investments constituting direct obligations of any bank, as defined by the Illinois Banking Act, which is fully insured by the Federal Deposit Insurance Corporation or collateralized with federal securities; short-term obligations of corporations organized in the U.S. with assets exceeding $500,000,000; money market mutual funds registered under the Investment Company Act of 1940; short-term discount obligations of the Federal National Mortgage Association; shares or other forms of securities legally issuable by savings and loan associations; obligations the interest upon which is tax-exempt under Section 103 of the Internal Revenue Code; repurchase agreements of government securities; and any other investment which is permitted by the Bond Trust Indenture.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Authority manages its exposure to interest rate risk by basing its investment decisions regarding maturity dates and rates on an analysis of the Authority's short-, mid-, and long-term cash needs and keeping the portfolio sufficiently liquid to enable the Authority to meet its operating requirements. In addition, the Authority's Investment policy limits any new investments to maturities of 5 years or less unless approved by the Executive Director.

As of June 30, 2012, the Weighted Average Maturities of the Authority's investments were:

Investment Type	June 30, 2012	Weighted Average Maturity (in years)
Federal agency securities	$ 41,201,978	2.45
State investment pool (Illinois Funds)	33,667,270	0.06
Money market funds	20,725,635	N/A
Investment contracts (Bond Fund)	7,522,973	9.66
Forward delivery agreements:		
Money market funds	23,287,725	N/A
Commercial paper	11,829,318	0.17
Repurchase agreements	23,077,846	0.003
Total	$ 161,312,745	

Credit Risk

Generally, credit risk is the risk that an issuer of a debt investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Authority's investment policy on credit risk is limiting the investments to high rated securities and diversifying the portfolio to limit exposure. Presented below is the rating as of year end for each investment type:

Investment Type	June 30, 2012	AAA	AA+	A-1+	Not Rated
Federal agency securities	$ 41,201,978	$ -	$ 41,201,978	$ -	$ -
State investment pool	33,667,270	33,667,270	-	-	-
Money market funds	2,492,299	2,492,299	-	-	-
Held by bond trustee:					
Money market funds	18,233,336	18,233,336	-	-	-
Investment contracts (Bond Fund)	7,522,973	-	-	-	7,522,973
Forward delivery agreements:					
Money market funds	23,287,725	23,287,725	-	-	-
Commercial paper	11,829,318	-	-	11,829,318	-
Repurchase agreements	23,077,846	-	23,077,846	-	-
Total	$ 161,312,745	$ 77,680,630	$ 64,279,824	$ 11,829,318	$ 7,522,973

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the concentration of an entity's investment in a single issuer. To reduce the risk of loss resulting in excess concentrations in a specific type, maturity, issuer or class of securities, the Authority's investment policy places the following restrictions on concentrations of investments:

a) Certificates of deposit from any single financial institution may not comprise more than 20% of the Authority's portfolio or 5% of the financial institution's total deposits.

b) Commercial paper purchases may not exceed 20% of the Authority's portfolio in total and 5% of Authority's portfolio in any single issuer's name.

c) No investment category shall exceed 30% of the Authority's portfolio, with the exception of U.S. Treasury securities and cash equivalents, including certificates of deposits.

As of June 30, 2012, investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of the total Authority investments are as follows:

Issuer	Investment Type	Amount
Atlantis One Funding	Commercial Paper	$ 11,829,318
Goldman Sachs Financial Square Treasury Obligations	Mutual Fund	$ 39,887,786

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Authority will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Authority will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Authority's investment policy requires that any deposits in excess of amounts insured by the FDIC or SAIF (Savings Association Insurance Fund) be secured by an eligible form of collateral equal to 110% of the uninsured deposit. Eligible collateral instruments are any of the following:

1) Federal government securities
2) Securities guaranteed by the federal government
3) Obligations of the State of Illinois
4) Letters of credit issued by the Federal Home Loan Bank of Chicago or equivalent entity; and,
5) Surety bonds issued by Municipal Bond Insurance Association (MBIA) or equivalent entity.

Third party safekeeping is required for collateral items 1, 2 and 3 above. The Authority's investment policy does not specifically address the collateralization requirements for investments.

As of June 30, 2012, all of the Authority's deposits with financial institutions in excess of federal depository limits were collateralized. The securities pledged as collateral were held with third party safekeeping in the name of the Authority.

As of June 30, 2012, all of the Authority's investments were backed by U.S. Government Treasuries held in the name of the Authority.

The Illinois Funds is an external investment pool administered by the Illinois State Treasurer. The fair value of the Authority's investment fund is the same as the value of pool shares. Although not subject to direct regulatory oversight, the fund is administered in accordance with the provisions of the Public Funds Investment Act (30 ICLS 235), the State Treasurer Act (15 ILCS 505/17), and the Deposit of State Moneys Act (15 ILCS 520/22.5).

The Authority has entered into a repurchase agreement with Bank of America. Under the terms of this agreement at the end of each business day the Bank will sell the Authority government securities. The Bank promises to repurchase these same securities at the beginning of the next banking day for the amount invested plus interest. The interest rate is established each day by the Bank. If, on the maturity date, the Bank defaults on its obligation to repurchase the securities, the Bank will transfer the securities to a custodian to hold for the benefit of the Authority. If this occurs, the Authority could incur a loss if the value of the securities declines. At June 30, 2012, the Authority had invested $23,077,846 under these agreements. The underlying securities are held by Bank of America's safekeeping department.

(4) SECURITIES LENDING TRANSACTION

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

During fiscal year 2012, Deutsche Bank Group lent U.S. Agency Securities, U.S. Treasury Bills, and U.S. Agency Discount Notes and received as collateral U.S. dollar denominated cash. Borrowers were required to deliver collateral for each loan equal to at least 100% of the aggregate fair value of the loaned securities. Loans are marked to market daily. If the fair value of collateral falls below 100%, the borrower must provide additional collateral to raise the fair value to 100%.

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

During the fiscal year, the State Treasurer and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in repurchase agreements with approved counterparties collateralized with securities approved by Deutsche Bank Group and marked to market daily at no less than 102%. Because the loans are terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The State Treasurer had no credit risk as a result of its securities lending program as the collateral held exceeded the fair value of the securities lent.

In accordance with GASB Statement No. 28, paragraph 9, the Office of the State Treasurer has allocated the assets and obligations at June 30, 2012 arising from securities lending agreements to the various funds of the State. The securities lending collateral invested in repurchase agreements allocated to the Illinois Agricultural Loan Guarantee Fund and Illinois Farmer Agribusiness Loan Guarantee Fund were $4,704,014 and $3,632,449, respectively, as of June 30, 2012.

(5) BONDS AND LOANS RECEIVABLE

The Authority sponsors a variety of lending programs including direct lending and direct lending participation loans. The Authority also makes loans through its two federal programs, the Economic Development Administration (E.D.A.) Title IX Revolving Loan Program and the Rural Development Loan Program. Bonds receivable from local governmental units represent amounts loaned to the units through the purchase of their securities.

<u>Illinois Housing Partnership Program</u>

The Authority participates in the Illinois Housing Partnership Program (IHPP) which was established by the Illinois General Assembly in 1985 in order to finance the acquisition and renovation of multi-family housing units. A predecessor Authority entered into the loan program with the City of Chicago in 1986 acting as a pass-through entity. The loan is non-interest bearing, with collections due on August 1, 2016. Total loan outstanding as of June 30, 2012, were $3,000,000.

<u>Direct Lending Program</u>

The Authority provides loans to Illinois businesses that cannot obtain sufficient financing through conventional sources, by lowering the amount of equity the borrower must contribute. Financing includes up to $250,000 to small and mid-size businesses for land, building, machinery, and equipment purchases. The Authority did not provide any new loans under this program for the year ending June 30, 2012. Loans under this program carry an interest rate of 1.5% with maturity dates up to ten years. This program has been superseded by the Direct Lending Participation Program. Total loans outstanding as of June 30, 2012, were $107,808.

Direct Lending Participation Program

Similar to the Direct Lending Program, the Authority allows for the purchase of land, building, construction or renovation of a building, and acquisition of machinery and equipment up to the lesser of $500,000 or 50% of the project. By purchasing a participation of the bank at a lower interest rate than the borrower would receive on its own, the Authority requires the bank to pass savings directly to the borrower. The Authority participations are on a pro-rata 50/50 basis with the bank. Loans under this program carry a variable interest rate that is up to 100 basis points less than the bank's rate with maturity dates up to ten years. Total loans outstanding as of June 30, 2012, were $7,723,058.

The E.D.A. Title IX Revolving Loan Program

The E.D.A. Title IX Restricted Revolving Loan Program provides low-cost supplemental financing to manufacturing companies located in areas declared eligible for Title IX assistance by the E.D.A. Loans under this program are up to $100,000 for small and mid-size manufacturers, and carry a fixed interest rate of 7.5% with maturity dates up to ten years. Total loans outstanding as of June 30, 2012, were $91,484. The E.D.A Title IX Restricted Revolving loans are fully reserved.

The Authority decided to discontinue the E.D.A. Title IX Revolving Loan Program due to the lack of activity in the program and returned the funds to Department of Commerce and Economic Opportunity. The remaining cash in the E.D.A Title IX Revolving Loan Program represents the Authority's share of the revolving loan fund which will be eventually transferred to the Authority's General Operating Fund.

The Rural Development Revolving Loan Program

The Rural Development Revolving Loan Program participates with the Rural Development Administration's (formerly the Farmers Home Administration) Intermediary Relending Program to provide loans to business facilities and community development projects in rural areas for land acquisitions, facility construction and renovation, and machinery and equipment purchases. The Authority will contribute up to 75% or $250,000 of fixed asset costs at a 6% interest rate with maturity dates up to 20 years. Total loans outstanding as of June 30, 2012, were $265,068.

Employee Ownership Assistance Program

This program provides supplemental financing to help facilitate employee acquisition of industrial and manufacturing facilities about to close or relocate outside of Illinois. Loans are made to employee-owned enterprises and may be used to finance up to 50% of total acquisition costs. It is funded by an appropriation for these purposes of $2,000,000 received by the prior Illinois Development Finance Authority during 1986 as set forth in Public Act 82-991. During fiscal year 2012, the loans made and outstanding in prior years under this program totaling $1,000,000 were converted to a grant which does not require repayment in accordance with the amendment of the Illinois Finance Authority Act (20 ILCS 3501/840-5(j)).

Fire Truck Revolving Loan Program

This program provides zero interest rate loans for the purchase of fire trucks by fire departments, fire protection districts, or township fire departments. The loans to each department, district or township may not exceed $250,000 and must be repaid within 20 years. The program is funded by a transfer of $19,000,000 from the State of Illinois and administered by the Authority. Total loans outstanding as of June 30, 2012, were $16,140,930.

Ambulance Revolving Loan Program

This program provides zero interest rate loans for the purchase of ambulances by fire departments, fire protection districts, township fire departments, and non-profit ambulance services. The loans may not exceed $100,000 and must be repaid within 10 years. The program is funded by an appropriation of $4,000,000 received by the State of Illinois and administered by the Authority. Total loans outstanding as of June 30, 2012, were $671,227.

Local Government Financing Assistance Program

This program provides financing to units of local government located in the State of Illinois by purchasing the securities of the local governments. Total loans outstanding as of June 30, 2012, were $218,423.

Bond Bank Lending Program

This program facilitates the financing needs of a broad array of governmental units located throughout the State. The Local Government units make payments on the loans from taxes, revenues, rates, charges, or assessments, in an amount sufficient to pay the principal of and interest on its Local Government Securities when due. The program is funded by issuing Moral Obligation Revenue Bonds (Note 10). Total loans outstanding as of June 30, 2012, were $34,643,937.

Loans with the Primary Government and Component Units of the State

The Authority has provided financing to the State of Illinois and to component units of the State of Illinois. The borrowers make payments in an amount sufficient to pay the principal of and interest on the bonds when due. Total loans outstanding as of June 30, 2012, were $95,519,528.

Renewable Energy Development Program

This program provides loans to qualified borrowers who construct community scale wind projects for use as alternative energy. This program was funded by a $2,000,000 grant received from the Illinois Clean Energy Community Foundation. Total loans outstanding as of June 30, 2012, were $1,579,752.

Allowance for Doubtful Accounts

The allowance for doubtful accounts for all loans receivable and notes receivable at June 30, 2012, is comprised of two components. Loans which are delinquent greater than 90 days are reserved for at 100% of principal outstanding. In addition, the Authority provides a general reserve at approximately 2% for the principal balance of all other loans outstanding. Loans originated by the predecessor Illinois Rural Bond Bank, Loans to the State of Illinois and Component Units of the State of Illinois, the Fire Truck Revolving Loan Program, Renewable Energy Development Fund, Ambulance Revolving Loan Program and the Local Government Financing Assistance Program have not experienced a default, therefore, the allowance for doubtful accounts based on prior experience is zero.

(6) GUARANTEE RECEIVABLES

Guarantee receivables result from amounts due to the Authority after it has paid a guarantee claim. Activity related to guarantee receivables for the year ended June 30, 2012, consisted of the following:

	Illinois Farmer Agribusiness Loan Guarantee Fund	Illinois Agricultural Loan Guarantee Fund	Illinois Industrial Revenue Bond Insurance Fund	Total
Guarantee receivables beginning of year	$ 623,107	$ 170,902	$ 28,402	$ 822,411
Disbursements on guarantee claims	-	-	-	-
Payments received	-	-	-	-
Receivables written off	-	-	-	-
Gross guarantee receivables end of year	623,107	170,902	28,402	822,411
Allowance for doubtful accounts	(623,107)	(170,902)	(28,402)	(822,411)
Net receivables - end of year	$ -	$ -	$ -	$ -

The allowance for doubtful accounts for all guarantee receivables at June 30, 2012, is the difference between the guarantee payments made and the Authority's estimation of the value of any collateral securing the guarantee.

(7) INVESTMENTS IN PARTNERSHIPS AND COMPANIES

In 2004, the Authority assumed the administration as well as the ownership of the interests purchased under the Technology Development Bridge Program established by the Illinois Development Finance Authority. These investments were made to accomplish the statutory purpose of the Venture Investment Fund. In Fiscal Year 2012, the Authority's Board of Directors decided to liquidate the investment portfolio of this program due to the length of investments, the lack of return on investment on the interests remaining in the portfolio, and the annual costs of administering the program.

During 2012, the Authority sold all of its salable portfolio interests for a total of $173,171. The Authority reported a loss on these transactions of $2,074,810. The Authority has determined that all remaining portfolio interests have no value. The Authority is in the process of obtaining the approval of the Attorney General to write off the remaining interests.

(8) INTERFUND BALANCES AND ACTIVITY:

a) Balance due from/to other funds

The following balances represent amounts due from Other Major and Other Nonmajor funds as of June 30, 2012:

	Due From		
Funds	Other Major Funds	Other Nonmajor Funds	Description / Purpose
General Operating Fund	$ -	$ 562,527	Due from E.D.A Title IX Restricted Revolving Loan Fund for the return of grant funds to the Department of Commerce and Economic Opportunity (DCEO). The return of funds was disbursed from the General Operating Fund.
General Operating Fund	-	7,669	Due from Rural Development Revolving Loan Fund for the payment of administrative costs.
Nonmajor funds	1,500,000	-	Due from General Operating Fund for the grant received from DCEO temporarily deposited in the General Operating Fund.
Total	$ 1,500,000	$ 570,196	

The following balances represent amounts due to Other Major and Other Nonmajor funds for the fiscal year ended June 30, 2012:

	Due to		
Funds	Other Major Funds	Other Nonmajor Funds	Description / Purpose
Nonmajor Funds	$ 570,196	$ -	Due to the General Operating Fund from the Title IX Restricted Revolving Loan Fund for the return of grant funds to the Department of Commerce and Economic Opportunity (DCEO) disbursed from the General Operating Fund. This also includes amount due to General Operating Fund from the Rural Development Revolving Loan Fund for administrative cost.
General Operating Fund	-	1,500,000	Due to the Illinois Energy Fund for the grant received from DCEO temporarily deposited in the General Operating Fund bank account.
Total	$ 570,196	$ 1,500,000	

b) Transfers to/from other funds

Interfund transfers for the year ended June 30, 2012, were as follows:

	Transfers to		
Fund	Other Major Funds	Other Nonmajor Funds	Description / Purpose
General Operating Fund	$ -	$ 8,500	Transfer from the Credit Enhancement Fund for excess program funds.
General Operating Fund	181,589	-	Transfer from the Venture Investment Fund for cash proceeds of sales of venture capital investments.
Total	$ 181,589	$ 8,500	

	Transfers from		
Fund	Other Major Funds	Other Nonmajor Funds	Description / Purpose
Credit Enhancement Fund	$ 8,500	$ -	Transfer to the General Operating Fund for excess program funds.
Venture Investment Fund	181,589	-	Transfer to the General Operating Fund for cash proceeds of sales of venture capital investments.
Total	$ 190,089	$ -	

(9) LONG-TERM OBLIGATIONS

Intermediary Relending Program

The predecessor authorities (Note 1) entered into loan agreements, now a liability of the Authority, with the U.S. Department of Agriculture's Rural Development Administration (formerly Farmers Home Administration), a federal agency, on December 14, 1990, for funding of the Intermediary Relending Program (IRP). The funding was negotiated through a line of credit in the amount of $1,500,000.

The loan payable is collateralized by the existing outstanding and future loans receivable of the IRP, by cash and investments recorded in the IRP fund derived from the proceeds of this loan award.

Principal and interest on the December 14, 1990 loan, at the fixed rate of 1% per annum, are being paid in 27 equal annual amortized installments of $63,675, with any remaining balance due and payable 30 years from the date of the note.

Long-term debt is summarized as follows:

	Balance June 30, 2011	Repayments	Balance June 30, 2012	Due Within One Year
Rural Development Revolving Loan	$ 603,137	$ 57,644	$ 545,493	$ 58,220

Principal and interest payments of long-term debt at June 30, 2012, are due as follows:

	Principal	Interest	Total
Year ending June 30:			
2013	$ 58,220	$ 5,455	$ 63,675
2014	58,802	4,873	63,675
2015	59,390	4,285	63,675
2016	59,984	3,691	63,675
2017	60,584	3,091	63,675
2018 - 2021	248,513	6,245	254,758
	$ 545,493	$ 27,640	$ 573,133

Fire Truck Revolving Loan and Ambulance Revolving Loan

The Fire Truck Revolving Loan program was authorized by the Illinois Finance Authority Act (20 ILCS 3501/825-80). The loan program is jointly administered by the Authority and the Office of the State Fire Marshal. The Fire Prevention Fund and Build Illinois Bond Fund loaned $9 million and $10 million, respectively, to the Authority to grant interest-free loans for the purchase of fire trucks by fire departments, fire protection districts, or township fire departments based on need as determined by the State Fire Marshal. Under the terms of the program, the loans to any fire department, fire protection district, or township fire department may not exceed $250,000. Repayment period for each loan may not exceed 20 years and requires a minimum of 5% of the principal amount borrowed each year.

The Ambulance Revolving Loan program was authorized by the Illinois Finance Authority Act (20 ILCS 3501/825-85). The loan program is jointly administered by the Authority and the Office of the State Fire Marshal. The Fire Prevention Fund loaned $4 million to the Authority to grant interest-free loans for the purchase of ambulances by fire departments, fire protection districts, township fire departments, or a non-profit ambulance services based on need as determined by the State Fire Marshal. Under the terms of the program, the loans to any fire department, fire protection district, or non-profit ambulance service may not exceed $100,000. Repayment period for each loan may not exceed 10 years and requires a minimum of 5% of the principal amount borrowed each year.

Due to primary government is summarized as follows:

	Balance June 30, 2011	Additions	Repayments	Balance June 30, 2012	Due Within One Year
Fire Truck Revolving Loans	$17,486,608	$ -	$1,345,678	$16,140,930	$1,189,741
Ambulance Revolving Loans	832,213	-	160,986	671,227	160,986
	$18,318,821	$ -	$1,506,664	$16,812,157	$1,350,727

Principal payments of due to primary government at June 30, 2012, are due as follows:

	Fire Truck Revolving Loan	Ambulance Revolving Loan	Total
Year ending June 30:			
2013	$ 1,189,741	$ 160,986	$ 1,350,727
2014	1,189,741	94,320	1,284,061
2015	1,189,741	94,320	1,284,061
2016	1,131,641	74,320	1,205,961
2017	1,131,641	74,320	1,205,961
2018 - 2022	5,329,273	172,961	5,502,234
2023 - 2027	3,802,496	-	3,802,496
2028 - 2030	1,176,656	-	1,176,656
	$ 16,140,930	$ 671,227	$ 16,812,157

(10) REVENUE BONDS PAYABLE

Each revenue bond issue is payable only out of the trust estate established for each issue. The trust estate is comprised of all rights, title, and interest of the Authority in the loan securities, the purchase agreements, the intercept proceedings, and all moneys and securities held in all funds and accounts under the indenture, except moneys and securities on deposit in the redemption fund which are for the payment of the principal and interest of bonds called for redemption prior to maturity. The Authority has pledged future loan revenues to repay the outstanding principal revenue bonds. Proceeds from the bonds provided financing for various loan programs. The bonds are payable solely from principal and interest revenues under the related loans and are payable through the final maturity of the bonds in 2040. Annual principal and interest payments on the bonds are expected to require approximately 100% of these loan revenues. The assets of the Bond Fund are therefore classified as restricted assets on the Statement of Net Assets.

All bonds outstanding at June 30, 2012, are revenue bonds of the Authority and are payable solely from the revenues or funds pledged or available for their payment as authorized by the Act (20 ILCS 3501/801-40(c)). Neither the faith and credit nor the taxing power of the State of Illinois is pledged to the payment of the principal or interest on the bonds.

The Authority may issue revenue bonds with the State's moral obligation pledge attached. This pledge means that in the event it is determined that money will not be available for payment of principal and interest of these obligations, the Governor is to submit the shortfall amount to the General Assembly. The 1992B Revenue Bonds through the 2009 Revenue Bonds and the Illinois Medical District Commission are considered moral obligation revenue bonds. The revenue bonds of the component units and primary government were not issued with the State's moral obligation pledge attached. Bonds payable at June 30, 2012, are comprised of the following individual issues:

1992B Revenue Bonds - original issue $4,975,000, dated December 1, 1992, provides for serial retirement of principal on February 1, and interest payable on February 1 and August 1 of each year at rates of 4.00-6.75%. Final maturity is February 1, 2018.

1993B Revenue Bonds - original issue $9,450,000, dated December 1, 1993, provides for serial retirement of principal on February 1, and interest payable on February 1 and August 1 of each year at rates of 3.75-5.75%. Final maturity is February 1, 2016.

1995A Revenue Bonds - original issue $1,700,000, dated May 1, 1995, provides for serial retirement of principal on February 1, and interest payable on February 1 and August 1 of each year at rates of 4.40-6.10%. Final maturity is February 1, 2016.

1997B Revenue Bonds - original issue $2,935,000, dated December 1, 1997, provides for serial retirement of principal beginning February 1, 1999 and every February 1 thereafter, and interest payable on February 1 and August 1 of each year at rates of 4.05-5.35%. Final maturity is February 1, 2023.

1998A Revenue Bonds - original issue $9,940,000, dated June 1, 1998, provides for serial retirement of principal beginning February 1, 1999 and every February 1 thereafter, and interest payable on February 1 and August 1 of each year at rates of 3.80-5.32%. Final maturity is February 1, 2024.

1998B Revenue Bonds - original issue $3,710,000, dated December 1, 1998, provides for serial retirement of principal beginning February 1, 2000 and every February 1 thereafter, and interest payable on February 1 and August 1 of each year at rates of 3.50-5.15%. Final maturity is February 1, 2024.

1999A Revenue Bonds - original issue $2,520,000, dated June 1, 1999, provides for serial retirement of principal beginning February 1, 2000 and every February 1 thereafter, and interest payable on February 1 and August 1 of each year at rates of 3.45-5.50%. Final maturity is February 1, 2029.

2000A Revenue Bonds - original issue $5,145,000, dated June 1, 2000, provides for serial retirement of principal beginning February 1, 2001 and every February 1 thereafter, and interest payable on February 1 and August 1 of each year at rates of 4.65-6.00%. Final maturity is February 1, 2031.

2000B Revenue Bonds - original issue $735,000, dated December 1, 2000, provides for serial retirement of principal beginning February 1, 2002 and every February 1 thereafter, and interest payable on February 1 and August 1 of each year at rates of 4.40-5.55%. Final maturity is February 1, 2025.

2001A Revenue Bonds - original issue $3,625,000, dated July 1, 2001, provides for serial retirement of principal beginning February 1, 2002 and every February 1 thereafter, and interest payable on February 1 and August 1 of each year at rates of 3.00-5.35%. Final maturity is February 1, 2024.

2001B Revenue Bonds - original issue $5,545,000, dated December 1, 2001, provides for serial retirement of principal beginning February 1, 2003 and every February 1 thereafter, and interest payable on February 1 and August 1 of each year at rates of 2.55-5.35%. Final maturity is February 1, 2031.

2002A Revenue Bonds - original issue $1,180,000, dated June 1, 2002, provides for serial retirement of principal beginning February 1, 2003 and every February 1 thereafter, and interest payable on February 1 and August 1 of each year at rates of 1.60-5.20%. Final maturity is February 1, 2022.

2003A Revenue Bonds - original issue $11,740,000, dated June 1, 2003, provides for serial retirement of principal beginning February 1, 2004 and every February 1 thereafter, and interest payable on February 1 and August 1 of each year at rates of 1.00-4.15%. Final maturity is February 1, 2021.

2003B Revenue Bonds - original issue $10,700,000, dated September 1, 2003, provides for serial retirement of principal beginning February 1, 2004 and every February 1 thereafter, and interest payable on February 1 and August 1 of each year at rates of 1.10-5.20%. Final maturity is February 1, 2024.

2004A Revenue Bonds - original issue $2,640,000, dated August 1, 2004, provides for serial retirement of principal beginning February 1, 2005 and every February 1 thereafter, and interest payable on February 1 and August 1 of each year at rates of 1.45-5.00%. Final maturity is February 1, 2024.

2006A Revenue Bonds - original issue $11,505,000, dated January 1, 2006, provides for serial retirement of principal beginning February 1, 2007 and every February 1 thereafter, and interest payable on February 1 and August 1 of each year at rates of 3.30-4.85%. Final maturity is February 1, 2031.

2006B Revenue Bonds - original issue $1,915,000, dated August 3, 2006, provides for serial retirement of principal beginning February 1, 2007 and every February 1 thereafter, and interest payable on February 1 and August 1 of each year at rates of 3.75-4.90%. Final maturity is February 1, 2036.

2007A Revenue Bonds - original issue $6,455,000, dated August 16, 2007, provides for serial retirement of principal beginning February 1, 2008 and every February 1 thereafter, and interest payable on February 1 and August 1 of each year at rates of 3.70-4.85%. Final maturity is February 1, 2039.

2007B Revenue Bonds - original issue $2,590,000, dated January 24, 2008, provides for serial retirement of principal beginning February 1, 2009 and every February 1 thereafter, and interest payable on February 1 and August 1 of each year at rates of 2.85-4.70%. Final maturity is February 1, 2038.

2008A Revenue Bonds - original issue $1,800,000, dated July 22, 2008, provides for serial retirement of principal beginning February 1, 2009 and every February 1 thereafter, and interest payable on February 1 and August 1 of each year at rates of 4.125-5.125%. Final maturity is February 1, 2039.

2009A Revenue Bonds - original issue $4,460,000, dated December 4, 2009, provides for serial retirement of principal beginning February 1, 2011 and every February 1 thereafter, and interest payable on February 1 and August 1 of each year at rates of 1.90-5.375%. Final maturity is February 1, 2040.

<u>Revenue bonds issued for the benefit of other agencies and component units of the State of Illinois</u>:

Northern Illinois University, Series 1999 - original issue $20,000,000, dated February 1, 1999, provides for serial retirement of principal beginning September 1, 2000 and every September 1 thereafter, and interest payable March 1 and September 1 of each year at rates of 4.30% to 5.00%. Final maturity is September 1, 2024.

State of Illinois Revolving Fund, Series 2002 (Clean Water) - original issue $150,000,000, dated June 27, 2002, provides for serial retirement of principal beginning March 1, 2003 and every September 1 and March 1, thereafter, and interest payable on March 1 and September 1 of each year at rates of 3.25% to 5.5%. Final maturity is March 1, 2020.

State of Illinois Revolving Fund, Series 2004 (Clean Water) - original issue $130,000,000, dated May 20, 2004, provides for serial retirement of principal beginning March 1, 2005 and every September 1 and March 1, thereafter, and interest payable on March 1 and September 1 of each year at rates of 3.25% to 5.25%. Final maturity is September 1, 2023.

Illinois Medical District Commission, Series 2006A - original issue $7,500,000, dated January 31, 2006, provides for serial retirement of principal beginning September 1, 2010 and every September 1 thereafter, and interest payable on March 1 and September 1 of each year at rates of 4.125% to 4.70%. Final maturity is September 1, 2031.

Illinois Medical District Commission, Series 2006B - original issue $32,500,000, dated January 31, 2006, provides for serial retirement of principal beginning September 1, 2010 and every September 1 thereafter, and interest payable on March 1 and September 1 of each year at rates of 5.14% to 5.33%. Final maturity is September 1, 2031.

Northern Illinois University Foundation, Series 2006 - original issue $9,206,100, dated August 15, 2006, provides for serial retirement of principal beginning February 15, 2007 and every February 15 and August 15 until August 15, 2012 and then every August 15 thereafter, and interest payable February 15 and August 15 of each year at rate of 4.66%. Final maturity is August 15, 2016.

In fiscal year 2012, the Authority was notified by the Illinois Medical District Commission that the commission in prior years was not in compliance with the Debt Service Coverage ratio of 1.05 as required under the Loan and Security agreement dated January 1, 2006.

In February 2012, the Commission received a grant from the State of Illinois, Department of Commerce and Economic Opportunity. With the additional revenue from this grant, as of June 30, 2012, the Illinois Medical District Commission reports the Debt Service Coverage is 1.10.

The future debt service requirements for revenue bonds as of June 30, 2012, including interest payments are as follows:

	Total Revenue Bonds		
Fiscal Period Ending June 30,	Principal	Interest	Total
2013	$ 23,255,120	$ 11,096,110	$ 34,351,230
2014	21,979,000	9,935,159	31,914,159
2015	21,467,300	8,827,601	30,294,901
2016	21,896,800	7,730,675	29,627,475
2017	20,472,700	6,614,834	27,087,534
2018-2022	69,795,000	19,400,897	89,195,897
2023-2027	24,565,000	8,012,797	32,577,797
2028-2032	17,615,000	2,991,624	20,606,624
2033-2037	1,605,000	440,423	2,045,423
2038-2040	790,000	62,768	852,768
	$ 223,440,920	$ 75,112,888	$ 298,553,808

The following is a summary of the revenue bond transactions of the Authority for the year ended June 30, 2012:

Bond Series	Balance June 30, 2011	Additions	Retirements	Balance June 30, 2012	Amount Due Within One Year
1992 A Bonds	$ 15,000	$ -	$ (15,000)	$ -	$ -
1992 B Bonds	145,000	-	(70,000)	75,000	10,000
1993 B Bonds	160,000	-	(55,000)	105,000	60,000
1995 A Bonds	55,000	-	(5,000)	50,000	5,000
1996 C Bonds	50,000	-	(50,000)	-	-
1997 A Bonds	100,000	-	(100,000)	-	-
1997 B Bonds	545,000	-	(100,000)	445,000	100,000
1998 A Bonds	1,055,000	-	(425,000)	630,000	55,000
1998 B Bonds	1,120,000	-	(80,000)	1,040,000	80,000
1999 A Bonds	820,000	-	(55,000)	765,000	60,000
2000 A Bonds	350,000	-	(190,000)	160,000	15,000
2000 B Bonds	490,000	-	(30,000)	460,000	40,000
2001 A Bonds	875,000	-	(135,000)	740,000	145,000
2001 B Bonds	1,495,000	-	(85,000)	1,410,000	90,000
2002 A Bonds	430,000	-	(105,000)	325,000	25,000
2003 A Bonds	6,000,000	-	(1,400,000)	4,600,000	505,000
2003 B Bonds	6,515,000	-	(495,000)	6,020,000	500,000
2004 A Bonds	1,675,000	-	(145,000)	1,530,000	155,000
2006 A Bonds	9,545,000	-	(555,000)	8,990,000	570,000

Bond Series	Balance June 30, 2011	Additions	Retirements	Balance June 30, 2012	Amount Due Within One Year
2006 B Bonds	$ 1,715,000	$ -	$ (60,000)	$ 1,655,000	$ 60,000
2007 A Bonds	5,705,000	-	(210,000)	5,495,000	225,000
2007 B Bonds	2,005,000	-	(205,000)	1,800,000	210,000
2008 A Bonds	1,700,000	-	(40,000)	1,660,000	50,000
2009 A Bonds	4,335,000	-	(160,000)	4,175,000	160,000
Northern Illinois University					
Series 1999	13,890,000	-	(720,000)	13,170,000	755,000
Clean Water Series 2002	68,200,000	-	(11,685,000)	56,515,000	10,265,000
Clean Water Series 2004	78,110,000	-	(8,300,000)	69,810,000	8,290,000
Illinois Medical District Commission					
Series 2006A	7,290,000	-	(220,000)	7,070,000	230,000
Series 2006B	32,350,000	-	(300,000)	32,050,000	450,000
Northern Illinois University					
Foundation Series 2006	3,257,008	-	(561,088)	2,695,920	145,120
Unamortized issuance					
premium	4,028,468	-	(864,583)	3,163,885	738,927
Total	$ 254,025,476	$ -	$ (27,420,670)	$ 226,604,805	$ 23,994,047

The bond closing fees received from local governments are reported as deferred revenue and amortized over the term of the bond issues. The amortized revenues are included in the miscellaneous income. The following changes in deferred revenue occurred during the period:

	Balance June 30, 2011	Addition	Amortization	Balance June 30, 2012	Due Within One Year
Bond closing fees	$ 435,030	$ -	$ 71,394	$ 363,636	$ 61,375

(11) LEASE COMMITMENTS

The Authority is obligated under long-term operating leases for one (Chicago) of its four offices. Total rent expense for the year ended June 30, 2012 was $260,914.

The Authority entered into a lease agreement to lease facilities at 180 North Stetson Avenue, Suite 2555; Chicago, Illinois 60601. The term of the lease is through August 2014. No payments were required under the terms of the lease for the period from June 21, 2004 through June 30, 2006. Annual base rent payments, which began on July 1, 2006, range from approximately $119,000 to $149,000. In accordance with accounting principles generally accepted in the United States of America (GAAP), the total lease payments have been amortized over the term of the lease. Included in rent expense for the year ended June 30, 2012 is $107,349, which represents the current year amortization. Rent expense for the year ended June 30, 2012 is $234,038.

The Authority entered into an Interagency Agreement with the Illinois Department of Commerce and Economic Opportunity to lease office space in Springfield free of charge, effective April 29, 2009 until June 20, 2013.

The Authority entered into a lease agreement to lease facilities at 100 Southwest Water Street; Peoria, Illinois 61602. The term of the lease expires in May 2013. Annual base rent payments are approximately $5,616.

The Authority entered into a lease agreement to lease facilities at 2929 Broadway, Suite #7B, Mount Vernon; Illinois 62864. The term of the lease expires in June 2014. Annual base rent payments are approximately $10,386.

The Authority entered into a lease agreement to lease two digital copiers for its Chicago and Mt. Vernon offices for 36 months. The term of the lease expires in September 2012. Annual base rental payments are approximately $10,874.

The future minimum lease commitments as of June 30, 2012 are as follows:

Fiscal Year Ending June 30,	Amount
2013	$ 163,088
2014	160,110
2015	24,803
Total	$ 348,001

Letter of Credit

The lease at Two Prudential Plaza requires a letter of credit of $85,000 as a security deposit. As of June 30, 2012, no amounts have been drawn against this letter of credit.

(12) CAPITAL ASSETS

	Balance June 30, 2011	Additions	Deletions	Balance June 30, 2012
Cost				
Furniture and equipment	$ 224,898	$ -	$ -	$ 224,898
Computers	94,900	39,722	-	134,622
Software	183,646	-	-	183,646
Total capital assets being depreciated	$ 503,444	$ 39,722	$ -	$ 543,166
Accumulated Depreciation				
Furniture and equipment	$ 197,562	$ 18,502	$ -	$ 216,064
Computers	17,592	22,804	-	40,396
Software	175,210	3,164	-	178,374
Total capital assets being depreciated	$ 390,364	$ 44,470	$ -	$ 434,834
Capital assets, net of depreciation	$ 113,080	$ (4,748)	$ -	$ 108,332

The Authority's records were reconciled to the records maintained by the Comptroller of the State of Illinois.

(13) COMMITMENTS AND CONTINGENCIES

(a) Debt Service Reserve

The Authority is contingently liable for any claims (maximum of amount held in the Debt Service Reserve in the non-major Credit Enhancement Fund) submitted by the respective Bond Trustees of the prior Illinois Development Finance Authority if the company liable under the bond indenture were to default on repayment of the bond. At June 30, 2012, restricted demand deposits totaling $609,250 were held in the Credit Enhancement Fund for this purpose.

(b) Federally Assisted Programs

The Authority participates in the following federally assisted programs:

E.D.A. Title IX–Restricted Revolving Loan Program

The Authority decided to discontinue the E.D.A. Title IX Revolving Loan Program due to the lack of activity in the program and returned the funds to Department of Commerce and Economic Opportunity. The remaining cash in the E.D.A Title IX Revolving Loan Program represents the Authority's share of the revolving loan fund which will be eventually transferred to the Authority's General Operating Fund.

FmHA–Intermediary Relending Program

Demand deposits of $1,980,221 are held in the Rural Development Revolving Loan Fund, and are restricted due to FmHA-Intermediary Relending Program requirements. In addition, included in restricted assets is $249,164 in net loans receivable which secure the loans of the intermediary re-lending program.

Department of Energy – Revolving Loan Fund - ARRA

The Authority received a grant from the Department of Commerce and Economic Opportunity (DCEO) to be used as revolving loan fund to finance energy efficiency and renewable energy projects throughout the State. The Illinois Energy Fund was established within the Authority to administer this grant program. The grant money of $1,500,000 received towards the end of the fiscal year 2012 is recorded in the Authority's General Operating Fund until a separate bank account is established under the Illinois Energy Fund.

(c) Loan Guarantees

The Authority has a contingent liability regarding the loan guarantees outstanding at June 30, 2012. When a guaranteed loan defaults, the Authority is responsible for 85% of the liability, with the participating lender being responsible for the remaining 15%. Any guarantee that must be paid out by the State of Illinois, because of a claim properly filed by a bank that has a guaranteed loan that has defaulted, becomes a receivable on the books of the Authority. The State Treasurer maintains the cash and cash equivalents of the Illinois Agricultural Loan Guarantee Fund and the Illinois Farmer Agribusiness Loan Guarantee Fund which are restricted by enabling legislation to secure the state guarantees. The Authority must first liquidate the loan collateral, and absorb any loss due to uncollectible amounts. Any recoveries on the defaulted loan are first used to repay the Authority's guarantee and then used to repay the lender. These future liabilities, if any, cannot be estimated. According to the certifications received by the Authority from lenders, the maximum guarantees outstanding and the corresponding cash deposits used to secure the liabilities are as follows:

	Balance at June 30, 2012		
	Illinois Agricultural Loan Guarantee Fund	Illinois Farmer Agribusiness Loan Guarantee Fund	Total
Cash Deposits	$ 10,030,550	$ 7,746,485	$ 17,777,035
Maximum Outstanding Guarantees:			
State Guarantee Program for Restructuring Agricultural Debt	$ 14,991,071	$ -	$ 14,991,071
Specialized Livestock Loan Guarantee Program	-	3,812,465	3,812,465
Young Farmer Loan Guarantee Program	-	2,210,585	2,210,585
Farmer and Agri-Business Loan Guarantee Program	-	8,207,725	8,207,725
Farm Purchase	-	956,064	956,064
Total	$ 14,991,071	$ 15,186,839	$ 30,177,910

In addition to the loan guarantee funds held by the State Treasury, the Illinois Finance Authority Act (20 ILCS 3501/805-20(j)) authorizes the Authority to make payments on State guarantees from the Industrial Revenue Insurance Fund. This fund has a cash deposits totaling $11,664,878 at June 30, 2012.

(14) RISK FINANCING ACTIVITIES

The Authority is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors or omissions; injuries to employees; and natural disasters which are covered through purchase of commercial insurance. The Authority accounts for its risk financing activities in the General Operating Fund. There has been no significant reduction or changes in coverage during the current year nor have settlements exceeded insurance coverage in any of the last three years.

(15) DEFINED CONTRIBUTION PLAN

The Authority's Board of Directors approved the Illinois Finance Authority Deferred Compensation Plan (Plan). The Authority's Board of Directors has the power to amend the Plan. The Plan is administered through the State of Illinois, Department of Central Management Services and the Plan is considered a defined contribution plan. This plan allows participants to invest a portion of their salary in a choice of investment programs. Federal and State income taxes are deferred on the total amount through the plan as well as on investment earnings. However, the total contributions are subject to FICA taxes. The program provides a tax sheltered retirement account. The employee may begin participating in the Deferred Compensation Plan after 30 days of employment have been completed.

The maximum contributions through the year 2012 are:

YEAR	MAXIMUM CONTRIBUTION	AGE 50 CATCH UP
2012	$17,000	$22,500

The contribution schedule requires the Authority to match $2 for every $1 deferred by an eligible employee up to a maximum of 5% of an employee's salary. In order to participate in this plan an employee must contribute a minimum of 1% of their salary.

Total employer and employee contributions for fiscal year 2012 were $94,359 and $85,112 respectively.

(16) TRANSACTIONS WITH THE PRIMARY GOVERNMENT

The Authority, a body corporate and politic, is a component unit of the State of Illinois. The Authority is principally engaged in issuing taxable and tax-exempt bonds, making loans, and investing capital for businesses, non-profit corporations, local government units, and primary government including component units of the State of Illinois. This includes moral obligation bonds which were inherited from the former Illinois Development Finance Authority used to finance a primary government project. The Authority also administers programs for the State and the related state appropriations for the programs.

Due to primary government - The Office of the Auditor General engaged an external audit firm to perform an audit of the Illinois Finance Authority's basic financial statements. The Operating General Fund of the Authority is indebted with the Office of the Auditor General in the amount of $200,000 for audit related fees.

Due to primary government - The Bond Fund monies held are at the loan subaccount to support the debt service payment. These moneys are payments received from the borrowers to cover the debt service payment. Total amount held as of June 30, 2012 is $134,166.

Due to State - The Fire Truck Revolving Loan Fund is established as a special fund in the State Treasury in accordance with Section 5.598 of the Finance Act (30 ILS 105). The Fire Prevention Fund and Build Illinois Bond Fund loaned $9 million and $10 million, respectively, to the Authority to grant interest-free loans for the purchase of fire trucks by fire departments, fire protection districts, or township fire departments based on need as determined by the State Fire Marshal. Total current portion due is $1,189,741 and total long-term due is $14,951,189.

Due to State - The Ambulance Revolving Loan Fund is established as a special fund in the State Treasury in accordance with Section 5.667 of the Finance Act (30 ILCS 105). The Fire Prevention Fund loaned $4 million to the Authority to grant interest-free loans for the purchase of ambulances by fire departments, fire protection districts, township fire departments, or a non-profit ambulance services based on need as determined by the State Fire Marshal. Total current portion due is $160,986 and total long-term due is $510,241.

(17) SUBSEQUENT EVENTS

On August 6, 2012, Public Act 097-0901 repealed the Fire Truck Revolving Loan Fund, the Fire Station Revolving Loan Fund, and the Ambulance Revolving Loan Fund and created the Fire and Ambulance Revolving Loan. In accordance with Public Act 097-0901, remaining moneys and subsequent collections of Fire Truck Revolving Loan Fund and Ambulance Revolving Loan Fund will be transferred to the Authority. These moneys will be deposited into the Fire and Ambulance Services Revolving Loan Fund and will be used to fund; (i) loans to fire departments and fire protection districts to purchase fire trucks, (ii) loans to fire departments and fire protection districts to construct fire stations, and, (iii) loans to fire departments, fire protection districts and non-profit ambulance services to purchase ambulances.

On July 18, 2012, Public Act 97-0825 was signed into law by the Governor. This Act amended the Illinois Medical District Commission Act (70 ILCS 915). This amendment designates the Illinois Medical District Commission (Commission) as a unit of local government; therefore, the Commission is no longer considered a State agency. The Commission has requested a determination from the State of Illinois, Office of the Comptroller (State Comptroller) as to whether the Commission will continue to be reported as a component unit of the State of Illinois for financial reporting purposes after the date of the amendment.

If the State Comptroller determines the Commission is no longer a component unit of the State of Illinois for financial reporting purposes, certain material changes related to the reporting of conduit debt will be made to the Authority's financial statements as of the date of the amendment. As of August 31, 2012, the State Comptroller's Office has not provided such a determination.

(18) NEW GOVERNMENTAL ACCOUNTING STANDARDS

The Governmental Accounting Standards Board (GASB) has issued the following Statements:

Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, The objective of this statement is to improve financial reporting by addressing issues related to service concession arrangements, which are a type of public-private or public-public partnership. The Authority is required to implement this Statement for the year ending June 30, 2013. Management has not yet completed its assessment of the impact of this GASB Statement on the Authority's financial statements.

Statement No. 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34*, The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The Authority is required to implement this Statement for the year ending June 30, 2013. Management has not yet completed its assessment of the impact of this GASB Statement on the Authority's financial statements.

Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, The objective of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in certain FASB and AICPA pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. The Authority is required to implement this Statement for the year ending June 30, 2013. Management has not yet completed its assessment of the impact of this GASB Statement on the Authority's financial statements.

Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The Authority is required to implement this Statement for the year ending June 30, 2013. Management has not yet completed its assessment of the impact of this GASB Statement on the Authority's financial statements.

Statement No. 65, *Items Previously Reported as Assets and Liabilities,* This statement establishes accounting and financial standards that reclassify as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Authority is required to implement this Statement for the year ending June 30, 2014. Management has not yet completed its assessment of the impact of this GASB Statement on the Authority's financial statements.

Statement No. 66, *Technical Corrections-2012-an amendment of GASB statements No. 10 and No. 62,* The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* Authority is required to implement this Statement for the year ending June 30, 2014. Management has not yet completed its assessment of the impact of this GASB Statement on the Authority's financial statements.

Statement No. 67, *Financial Reporting for Pension Plans-an amendment of GASB Statement No. 25,* The objective of this Statement is to improve financial reporting by state and local governmental pension plans. Authority is required to implement this Statement for the year ending June 30, 2015. Management has not yet completed its assessment of the impact of this GASB Statement on the Authority's financial statements.

Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27,* The primary objective of this Statement is to improve accounting and financial reporting by state and local governmental for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. Authority is required to implement this Statement for the year ending June 30, 2015. Management has not yet completed its assessment of the impact of this GASB Statement on the Authority's financial statements.

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
(A Component Unit of the State of Illinois)
Combining Statement of Net Assets - Nonmajor Funds
June 30, 2012

Assets	**Industrial Revenue Bond Insurance Fund**	**Credit Enhancement Fund**	**Illinois Agricultural Loan Guarantee Fund**	**Illinois Farmer Agribusiness Loan Guarantee Fund**	**IRBB Special Reserve Fund**
Current assets:					
Cash and cash equivalents - unrestricted	$11,664,878	$ -	$ -	$ -	$ 2,692,040
Restricted current assets					
Cash and cash equivalents	-	-	-	-	-
Securities lending collateral equity with State Treasurer	-	-	4,704,014	3,632,449	-
Accrued interest receivable	-	-	-	-	-
Loans receivable	-	-	-	-	-
Allowance for doubtful accounts	-	-	-	-	-
Due from other funds	-	-	-	-	-
Receivables					
Loans receivable	-	-	-	-	29,604
Interest and other	-	-	-	-	1,108
Total current assets	11,664,878	-	4,704,014	3,632,449	2,722,752
Noncurrent assets:					
Restricted noncurrent assets					
Cash and cash equivalents	-	609,250	10,030,550	7,746,485	-
Interest receivable	-	-	3,000	3,000	-
Guarantee payments receivable	28,402	-	170,902	623,107	-
Allowance for doubtful accounts	(28,402)	-	(170,902)	(623,107)	-
Loans receivable	-	-	-	-	-
Allowance for doubtful accounts	-	-	-	-	-
Loans receivable	-	-	-	-	188,819
Total noncurrent assets	-	609,250	10,033,550	7,749,485	188,819
Total assets	11,664,878	609,250	14,737,564	11,381,934	2,911,571
Liabilities					
Current liabilities:					
Obligation under securities lending of State Treasurer	-	-	4,704,014	3,632,449	-
Accrued interest payable	-	-	-	-	-
Due to primary government	-	-	-	-	-
Due to other funds short-term	-	-	-	-	-
Current portion of long-term debt	-	-	-	-	-
Total current liabilities	-	-	4,704,014	3,632,449	-
Noncurrent liabilities					
Noncurrent portion of long-term debt	-	-	-	-	-
Due to primary government	-	-	-	-	-
Total noncurrent liabilities	-	-	-	-	-
Total liabilities	-	-	4,704,014	3,632,449	-
Net Assets					
Restricted	-	609,250	10,033,550	7,749,485	-
Unrestricted	11,664,878	-	-	-	2,911,571
Total net assets	$ 11,664,878	$ 609,250	$ 10,033,550	$ 7,749,485	$ 2,911,571

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
(A Component Unit of the State of Illinois)
Combining Statement of Net Assets - Nonmajor Funds (continued)
June 30, 2012

Assets	**E.D.A. Title IX Restricted Revolving Loan Fund**	**Rural Development Revolving Loan Fund**	**Employee Ownership Assistance Loan Fund**	**Illinois Housing Partnership Program**	**Fire Truck Revolving Loan Fund**
Current assets:					
Cash and cash equivalents - unrestricted	$ -	$ -	$ -	$ 1,829,611	$ -
Restricted current assets					
Cash and cash equivalents	749,153	1,980,221	-	-	-
Securities lending collateral equity with State Treasurer	-	-	-	-	-
Accrued interest receivable	-	4,378	-	-	-
Loans receivable	91,484	18,407	-	-	1,189,741
Allowance for doubtful accounts	(91,484)	-	-	-	-
Due from other funds	-	-	-	-	-
Receivables					
Loans receivable	-	-	-	-	-
Interest and other	-	-	-	-	-
Total current assets	749,153	2,003,006	-	1,829,611	1,189,741
Noncurrent assets:					
Restricted noncurrent assets					
Cash and cash equivalents	-	-	-	-	-
Interest receivable	-	-	-	-	-
Guarantee payments receivable	-	-	-	-	-
Allowance for doubtful accounts	-	-	-	-	-
Loans receivable	-	246,661	-	-	14,951,189
Allowance for doubtful accounts	-	(15,904)	-	-	-
Loans receivable	-			3,000,000	-
Total noncurrent assets	-	230,757	-	3,000,000	14,951,189
Total assets	749,153	2,233,763	-	4,829,611	16,140,930
Liabilities					
Current liabilities:					
Obligation under securities lending of State Treasurer	-	-	-	-	-
Accrued interest payable	-	2,727	-	-	-
Due to primary government	-	-	-	-	1,189,741
Due to other funds short-term	562,527	7,669	-	-	-
Current portion of long-term debt	-	58,220	-	-	-
Total current liabilities	562,527	68,616	-	-	1,189,741
Noncurrent liabilities					
Noncurrent portion of long-term debt	-	487,273	-	-	-
Due to primary government	-	-	-	-	14,951,189
Total noncurrent liabilities	-	487,273	-	-	14,951,189
Total liabilities	562,527	555,889	-	-	16,140,930
Net Assets					
Restricted	186,626	1,677,874	-	-	-
Unrestricted	-	-	-	4,829,611	-
Total net assets	$ 186,626	$ 1,677,874	$ -	$ 4,829,611	$ -

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
(A Component Unit of the State of Illinois)
Combining Statement of Net Assets - Nonmajor Funds (continued)
June 30, 2012

Assets	**Renewable Energy Development Fund**	**Ambulance Revolving Loan Fund**	**Illinois Energy Fund**	**Total Nonmajor**
Current assets:				
Cash and cash equivalents - unrestricted	$ -	$ -	$ -	$ 16,186,529
Restricted current assets				
Cash and cash equivalents	597,173	-	-	3,326,547
Securities lending collateral equity with State Treasurer	-	-	-	8,336,463
Accrued interest receivable	186	-	-	4,564
Loans receivable	90,645	160,986	-	1,551,263
Allowance for doubtful accounts	-	-	-	(91,484)
Due from other funds	-	-	1,500,000	1,500,000
Receivables				
Loans receivable	-	-	-	29,604
Interest and other	-	-	-	1,108
Total current assets	688,004	160,986	1,500,000	30,844,594
Noncurrent assets:				
Restricted noncurrent assets				
Cash and cash equivalents	-	-	-	18,386,285
Interest receivable	-	-	-	6,000
Guarantee payments receivable	-	-	-	822,411
Allowance for doubtful accounts	-	-	-	(822,411)
Loans receivable	1,489,107	510,241	-	17,197,198
Allowance for doubtful accounts	-	-	-	(15,904)
Loans receivable	-	-	-	3,188,819
Total noncurrent assets	1,489,107	510,241	-	38,762,398
Total assets	2,177,111	671,227	1,500,000	69,606,992
Liabilities				
Current liabilities:				
Obligation under securities lending of State Treasurer	-	-	-	8,336,463
Accrued interest payable	-	-	-	2,727
Due to primary government	-	160,986	-	1,350,727
Due to other funds short-term	-	-	-	570,196
Current portion of long-term debt	-	-	-	58,220
Total current liabilities	-	160,986	-	10,318,333
Noncurrent liabilities				
Noncurrent portion of long-term debt	-	-	-	487,273
Due to primary government	-	510,241	-	15,461,430
Total noncurrent liabilities	-	510,241	-	15,948,703
Total liabilities	-	671,227	-	26,267,036
Net Assets				
Restricted	2,177,111	-	1,500,000	23,933,896
Unrestricted	-	-	-	19,406,060
Total net assets	$ 2,177,111	$ -	$ 1,500,000	$ 43,339,956

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
(A Component Unit of the State of Illinois)
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets - Nonmajor Funds
For the Year Ended June 30, 2012

	Industrial Revenue Bond Insurance Fund	Credit Enhancement Fund	Illinois Agricultural Loan Guarantee Fund	Illinois Farmer Agribusiness Loan Guarantee Fund	IRBB Special Reserve Fund
Operating revenues					
Interest on loans	$ -	$ -	$ -	$ -	$ 12,379
Miscellaneous	-	-	-	-	-
Total operating revenues	-	-	-	-	12,379
Operating expenses					
Professional services	-	-	-	-	-
Interest expense	-	-	-	-	-
Total operating expenses	-	-	-	-	-
Operating income	-	-	-	-	12,379
Nonoperating revenues:					
Permanent capital transfers	-	-	-	-	-
Transfer of interest in program to State of Illinois	-	-	-	-	-
Grant income	-	-	-	-	-
Interest and investment income	17,769	-	43,872	34,562	1,899
Total nonoperating income	17,769	-	43,872	34,562	1,899
Transfers					
Transfers to other fund	-	(8,500)	-	-	-
Total transfers	-	(8,500)	-	-	-
Change in net assets	17,769	(8,500)	43,872	34,562	14,278
Net assets - beginning of year	11,647,109	617,750	9,989,678	7,714,923	2,897,293
Net assets - end of year	$ 11,664,878	$ 609,250	$ 10,033,550	$ 7,749,485	$ 2,911,571

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
(A Component Unit of the State of Illinois)
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets - Nonmajor Funds (continued)
For the Year Ended June 30, 2012

	E.D.A. Title IX Restricted Revolving Loan Fund	Rural Development Revolving Loan Fund	Employee Ownership Assistance Loan Fund	Illinois Housing Partnership Program	Fire Truck Revolving Loan Fund
Operating revenues					
Interest on loans	$ -	$ 15,338	$ -	$ -	$ -
Miscellaneous	-	5,015	-	-	-
Total operating revenues	-	20,353	-	-	-
Operating expenses					
Professional services	-	7,669	-	-	-
Interest expense	-	5,743	-	-	-
Total operating expenses	-	13,412	-	-	-
Operating income	-	6,941	-	-	-
Nonoperating revenues:					
Permanent capital transfers	-	-	(1,000,000)	-	-
Transfer of interest in program to State of Illinois	(561,793)	-	-	-	-
Grant income	-	-	-	-	-
Interest and investment income	(344)	224	-	1,306	-
Total nonoperating income	(562,137)	224	(1,000,000)	1,306	-
Transfers					
Transfers to other fund	-	-	-	-	-
Total transfers	-	-	-	-	-
Change in net assets	(562,137)	7,165	(1,000,000)	1,306	-
Net assets - beginning of year	748,763	1,670,709	1,000,000	4,828,305	-
Net assets - end of year	$ 186,626	$ 1,677,874	$ -	$ 4,829,611	$ -

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
(A Component Unit of the State of Illinois)
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets - Nonmajor Funds (continued)
For the Year Ended June 30, 2012

	Renewable Energy Development Fund	Ambulance Revolving Loan Fund	Illinois Energy Fund	Total Nonmajor
Operating revenues				
Interest on loans	$ 32,605	$ -	$ -	$ 60,322
Miscellaneous	-	-	-	5,015
Total operating revenues	32,605	-	-	65,337
Operating expenses				
Professional services	-	-	-	7,669
Interest expense	-	-	-	5,743
Total operating expenses	-	-	-	13,412
Operating income	32,605	-	-	51,925
Nonoperating revenues:				
Permanent capital transfers	-	-	-	(1,000,000)
Transfer of interest in program to State of Illinois	-	-	-	(561,793)
Grant income	-	-	1,500,000	1,500,000
Interest and investment income	49	-	-	99,337
Total nonoperating income	49	-	1,500,000	37,544
Transfers				
Transfers to other fund	-	-	-	(8,500)
Total transfers	-	-	-	(8,500)
Change in net assets	32,654	-	1,500,000	80,969
Net assets - beginning of year	2,144,457	-	-	43,258,987
Net assets - end of year	$ 2,177,111	$ -	$ 1,500,000	$ 43,339,956

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
(A Component Unit of the State of Illinois)
Combining Statement of Cash Flows - Nonmajor Funds
For the Year Ended June 30, 2012

	Industrial Revenue Bond Insurance Fund	Credit Enhancement Fund	Illinois Agricultural Loan Guarantee Fund	Illinois Farmer Agribusiness Loan Guarantee Fund
Cash flows from operating activities:				
Cash payments to suppliers for goods and services	$ -	$ -	$ -	$ -
Net cash used in operating activities	-	-	-	-
Cash flows from noncapital financing activities:				
Bonds and notes principal payments	-	-	-	-
Interest payments	-	-	-	-
Principal paid to State	-	-	-	-
Due from other funds	-	-	-	-
Grants received	-	-	-	-
Transfer program interest to State of Illinois	-	-	-	-
Due to other funds	-	-	-	-
Transfers to other fund	-	(8,500)	-	-
Net cash provided by (used in) noncapital financing activities	-	(8,500)	-	-
Cash flows from investing activities:				
Cash received on loan receivables and guarantees	-	-	-	-
Cash received for interest on loans	-	-	-	-
Interest and dividends on investments	17,769	-	45,300	34,971
Net cash provided by (used in) investing activities	17,769	-	45,300	34,971
Net increase (decrease) in cash and cash equivalents	17,769	(8,500)	45,300	34,971
Cash and cash equivalents at beginning of year	11,647,109	617,750	9,985,250	7,711,514
Cash and cash equivalents at end of year	$ 11,664,878	$ 609,250	$ 10,030,550	$ 7,746,485
Reconciliation of operating income to net cash used in operating activities:				
Operating income	$ -	$ -	$ -	$ -
Adjustments to reconcile operating income to net cash used in operating activities:				
Interest on loans	-	-	-	-
Interest expense	-	-	-	-
Accounts receivable	-	-	-	-
Net cash used in operating activities	$ -	$ -	$ -	$ -

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
(A Component Unit of the State of Illinois)
Combining Statement of Cash Flows - Nonmajor Funds (continued)
For the Year Ended June 30, 2012

	IRBB Special Reserve Fund	E.D.A. Title IX Restricted Revolving Loan Fund	Rural Development Revolving Loan Fund	Employee Ownership Assistance Loan Fund	Illinois Housing Partnership Program
Cash flows from operating activities:					
Cash payments to suppliers for goods and services	$ -	$ -	$ (7,669)	$ -	$ -
Net cash used in operating activities	-	-	(7,669)	-	-
Cash flows from noncapital financing activities:					
Bonds and notes principal payments	-	-	(57,644)	-	-
Interest payments	-	-	(6,032)	-	-
Principal paid to State	-	-	-	-	-
Due from other funds	(40,644)	-	-	-	-
Grants received	-	-	-	-	-
Transfer program interest to State of Illinois	-	(561,793)	-	-	-
Due to other funds	40,644	562,527	7,669	-	-
Transfers to other fund	-	-	-	-	-
Net cash provided by (used in) noncapital financing activities	-	734	(56,007)	-	-
Cash flows from investing activities:					
Cash received on loan receivables and guarantees	28,102	-	38,714	-	-
Cash received for interest on loans	12,542	-	15,684	-	-
Interest and dividends on investments	1,899	(344)	224	-	1,306
Net cash provided by (used in) investing activities	42,543	(344)	54,622	-	1,306
Net increase (decrease) in cash and cash equivalents	42,543	390	(9,054)	-	1,306
Cash and cash equivalents at beginning of year	2,649,497	748,763	1,989,275	-	1,828,305
Cash and cash equivalents at end of year	$2,692,040	$ 749,153	$ 1,980,221	$ -	$ 1,829,611
Reconciliation of operating income to net cash used in operating activities:					
Operating income	$ 12,379	$ -	$ 6,941	$ -	$ -
Adjustments to reconcile operating income to net cash used in operating activities:					
Interest on loans	(12,379)	-	(15,338)	-	-
Interest expense	-	-	5,743	-	-
Accounts receivable	-	-	(5,015)	-	-
Net cash used in operating activities	$ -	$ -	$ (7,669)	$ -	$ -

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
(A Component Unit of the State of Illinois)
Combining Statement of Cash Flows - Nonmajor Funds (continued)
For the Year Ended June 30, 2012

	Fire Truck Revolving Loan Fund	Renewable Energy Development Fund	Ambulance Revolving Loan Fund	Illinois Energy Fund	Total Nonmajor
Cash flows from operating activities:					
Cash payments to suppliers for goods and services	$ -	$ -	$ -	$ -	$ (7,669)
Net cash used in operating activities	-	-	-	-	(7,669)
Cash flows from noncapital financing activities:					
Bonds and notes principal payments	-	-	-	-	(57,644)
Interest payments	-	-	-	-	(6,032)
Principal paid to State	(1,345,678)	-	(160,986)		(1,506,664)
Due from other funds	-	-	-	(1,500,000)	(1,540,644)
Grants received	-	-	-	1,500,000	1,500,000
Transfer program interest to State of Illinois	-	-	-	-	(561,793)
Due to other funds	-	-	-	-	610,840
Transfers to other fund	-	-	-	-	(8,500)
Net cash provided by (used in) noncapital financing activities	(1,345,678)	-	(160,986)	-	(1,570,437)
Cash flows from investing activities:					
Cash received on loan receivables and guarantees	1,345,678	88,803	160,986	-	1,662,283
Cash received for interest on loans	-	32,610	-	-	60,836
Interest and dividends on investments	-	49	-	-	101,174
Net cash provided by (used in) investing activities	1,345,678	121,462	160,986	-	1,824,293
Net increase (decrease) in cash and cash equivalents	-	121,462	-	-	246,187
Cash and cash equivalents at beginning of year	-	475,711	-	-	37,653,174
Cash and cash equivalents at end of year	$ -	$ 597,173	$ -	$ -	$ 37,899,361
Reconciliation of operating income to net cash used in operating activities:					
Operating income	$ -	$ 32,605	$ -	$ -	$ 51,925
Adjustments to reconcile operating income to net cash used in operating activities:					
Interest on loans	-	(32,605)	-	-	(60,322)
Interest expense	-	-	-	-	5,743
Accounts receivable	-	-	-	-	(5,015)
Net cash used in operating activities	$ -	$ -	$ -	$ -	$ (7,669)

E.C. ORTIZ & CO., LLP
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Honorable William G. Holland
Auditor General
State of Illinois

and

Ms. Gila Bronner
Chairwoman of the Audit Committee
Illinois Finance Authority

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of the State of Illinois, Illinois Finance Authority, a component unit of the State of Illinois, as of and for the year ended June 30, 2012, which collectively comprise the State of Illinois, Illinois Finance Authority's basic financial statements and have issued our report thereon dated December 7, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the State of Illinois, Illinois Finance Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the State of Illinois, Illinois Finance Authority's 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, Illinois Finance Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State of Illinois, Illinois Finance Authority's 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

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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 the accompanying schedule of findings as items 12-1 and 12-2, 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, Illinois Finance Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as items 12-1 and 12-2.

The State of Illinois, Illinois Finance Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the State of Illinois, Illinois Finance Authority's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the State of Illinois, Illinois Finance Authority's management, the State of Illinois, Illinois Finance Authority's Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

E. C. Ortiz & Co., LLP

E.C. ORTIZ & CO., LLP
December 7, 2012

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
(A Component Unit of the State of Illinois)
SCHEDULE OF FINDINGS
June 30, 2012

CURRENT FINDINGS – *GOVERNMENT AUDITING STANDARDS*

12-1. **FINDING** (Inadequate Controls over Monitoring Covenant Compliance)

The Illinois Finance Authority (Authority) did not have adequate internal controls to properly maintain records for monitoring covenant compliance for bonds or loan agreements reported on the face of the Authority's basic financial statements.

These bonds or loan agreements include:

1) Revenue bonds issued for the benefit of other agencies and component units of the State, as required to be shown under Interpretation No. 2 of the Governmental Accounting Standards Board;
2) Revenue bonds issued for the Bond Bank Lending Program to support the financing needs of local governments in the State;
3) Fire Truck Revolving Loans;
4) Ambulance Revolving Loans;
5) Participation Loans; and,
6) Renewable Energy Development Loans.

During testing, the auditors noted the Authority could not provide documentation filed by borrowers or present evidence of the Authority's monitoring of borrower compliance with 16 of 39 (41%) significant covenants tested, affecting 22 loan agreements or revenue bonds reported on the face of the Authority's basic financial statements. The noted significant covenants include certain continuing disclosure requirements, such as providing financial reports, ratio calculations, compliance certifications, and insurance coverage documentation; however, the noted significant covenants did not include monitoring of actual principal and interest payments required under the tested bond or loan agreements. According to the Authority's management, the Authority has not implemented an organized records management system capable of identifying where the specific records requested are retained within the Authority's files.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Authority establish and maintain a system, or systems, of fiscal and administrative controls to provide assurance assets are safeguarded against loss. Good internal controls include monitoring borrowers' compliance with specific bond or loan covenants to reduce risk to the Authority. In addition, good internal controls include establishing and maintaining an active, continuing program for the economical and efficient management of the Authority's records.

CURRENT FINDINGS – *GOVERNMENT AUDITING STANDARDS*

Failure to monitor borrower compliance with significant covenants could result in the Authority not identifying borrower noncompliance, potentially impacting the ability of the Authority to protect State assets. Further, failure to establish and maintain a records management system capable of identifying the specific location of Authority records limits the usefulness of records retained by the Authority. (Finding Code No. 12-1)

Recommendation

We recommend the Authority develop, establish, and maintain a recordkeeping system documenting receipt of the required bond documents, which is capable of identifying the location of documents retained by the Authority.

Authority Response

We accept the Auditor's recommendation. As stated above none of the instances of missing documentation dealt with the actual payment of principal or interest on the bonds and are mainly administrative covenants. At the time of issuance, the Authority treated these bonds as conduit debt and they were not reported on the Authority's Statement of Net Assets. As a result, the Authority did not establish appropriate documentation and covenant compliance monitoring procedures when these bonds were originally issued.

The Authority recognizes the importance of covenant compliance and is in the process of devoting resources to establish a more effective documentation system for posting receipt of required bond documents and monitoring of covenant compliance.

CURRENT FINDINGS – *GOVERNMENT AUDITING STANDARDS*

12-2. **FINDING** (Inadequate Controls over Financial Reporting)

The Illinois Finance Authority (Authority) did not exercise adequate internal control over financial reporting.

During testing, the auditors noted the following:

- The Authority did not develop a basis or prepare any calculations for the estimated arbitrage liability accrual of $1,000,030 within the debt service fund of the State of Illinois Revolving Fund, Series 2004 (Clean Water) issuance under the Internal Revenue Service's Publication 4079, *Tax Exempt Governmental Bonds Compliance Guide* (9/2005). The auditors analyzed the accrual and determined the accrual did not materially misstate the Authority's financial statements.

  The Authority's *Policies and Procedures Manual*, Procedure 60.30.001, requires accounting estimates "be reasonable and based on supporting documentation." Further, the Authority's management is responsible under generally accepted accounting principles for establishing a process for preparing reasonable accounting estimates based upon an accumulation of relevant, sufficient, and reliable data.

  Authority management stated the Authority recorded the accrual based upon a conversation between the Authority, the borrower, bond counsel, and the bond trustee concerning the potential for a higher arbitrage tax liability.

- The Authority did not accrue interest income, totaling $388,909, from March 2012 through June 2012 on investments of the debt service fund under the Debt Service Forward Delivery Agreement for the State of Illinois Revolving Fund, Series 2004 (Clean Water) issuance.

  The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Authority establish and maintain a system, or systems, of fiscal and administrative controls to provide assurance revenues and funds applicable to operations are properly recorded and accounted for to permit the preparation of reliable financial reports.

CURRENT FINDINGS – *GOVERNMENT AUDITING STANDARDS*

Authority management stated the interest for investments was not accrued due to staff oversight.

Failure to document the calculation of estimated arbitrage liability based upon an accumulation of relevant, sufficient, and reliable data and properly record interest accruals reduces the reliability of Statewide financial reporting and increases the risk of material misstatement within the Authority's financial statements. (Finding Code No. 12-2)

Recommendation

We recommend the Authority document the calculation of estimated arbitrage liability based upon an accumulation of relevant, sufficient, and reliable data and properly record interest accruals.

Authority Response

We accept the Auditor's recommendation. The Authority accrued the arbitrage rebate liability as required by applicable tax law. At the time of issuance, the Authority treated these bonds as conduit debt and they were not reported on the Authority's Statement of Net Assets. Upon the issuance of these bonds, the Authority, Illinois Environmental Protection Agency (IEPA), and the Governor's Office of Management and Budget (GOMB) entered into an Intergovernmental Agreement defining the responsibilities of each of the parties in administering this loan program.

As part of an anticipated bond issue tentatively planned for 2013 under the joint IEPA and IFA program, the Authority is negotiating a new intergovernmental agreement with the IEPA and GOMB. The new agreement will redefine and reallocate the duties of each of the parties.

In the future, the Authority will properly record accruals and ensure all accruals are properly documented consistent with the Authority's policies and procedures.