STATE OF ILLINOIS
ILLINOIS MEDICAL DISTRICT COMMISSION
(A Component Unit of the State of Illinois)

FINANCIAL AUDIT
AND
COMPLIANCE EXAMINATION
For the Year Ended June 30, 2011

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

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

State of Illinois
Illinois Medical District Commission
(A Component Unit of the State of Illinois)
Financial Audit and Compliance Examination
For the Year Ended June 30, 2011

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Illinois Medical District Commission
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Financial Audit and Compliance Examination
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State of Illinois
Illinois Medical District Commission
(A Component Unit of the State of Illinois)

Commission Officials

Executive Director	Mr. Samuel Pruett
Chief Legal Counsel	Mr. Mark Jamil
Project Manager, Financial Affairs (07/01/10 to 05/13/11)	Mr. Thomas Custardo

Commission office is located at:

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Medical District

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STATE COMPLIANCE EXAMINATION MANAGEMENT ASSERTION LETTER

December 13, 2011

E. C. Ortiz & Co., LLP
333 S. Des Plaines St., Suite 2-N
Chicago, Illinois 60661

Ladies and Gentlemen:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the Agency. We are responsible for and we have established and maintained an effective system of, internal controls over compliance requirements. We have performed an evaluation of the Illinois Medical District Commission's (Commission) compliance with the following assertions during the period ended June 30, 2011. Based on this evaluation, we assert that during the year ended June 30, 2011 the Commission has materially complied with the assertions below.

A. The Commission has obligated, expended, received and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.

B. The Commission has obligated, expended, received and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.

C. The Commission has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.

D. State revenues and receipts collected by the Commission are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.

Vital Ground

E. Money or negotiable securities or similar assets handled by the Commission on behalf of the State or held in trust by the Commission have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

Yours very truly,

Signed:

Samuel W. Pruett
Executive Director

Mark S. Jamil
Chief Legal Counsel

State of Illinois
Illinois Medical District Commission
(A Component Unit of the State of Illinois)

Compliance Report

Summary

The compliance testing performed during this examination was conducted in accordance with *Government Auditing Standards* and in accordance with the Illinois State Auditing Act.

Accountants' Reports

The Independent Accountants' Report on State Compliance, on Internal Control Over Compliance, and on Supplementary Information for State Compliance Purposes does not contain scope limitations, disclaimers, or other significant non-standard language.

Summary of Findings

Number of	Current Report	Prior Report
Findings	3	2
Repeated findings	2	1
Prior recommendations implemented or not repeated	0	1

Details of findings are presented in the separately tabbed report section of this report.

Schedule of Findings

Item No.	Page	Description	Finding Type
		FINDINGS (STATE COMPLIANCE)	
11-1	11	Failure to Remit Unexpended Proceeds from the Sale of Commission Property into the Income Fund Held in the State Treasury	Noncompliance Significant Deficiency
11-2	15	Noncompliance with the Illinois Procurement Code	Noncompliance Significant Deficiency
11-3	18	Noncompliance with Loan and Security Agreement	Noncompliance Significant Deficiency

State of Illinois
Illinois Medical District Commission
(A Component Unit of the State of Illinois)

Compliance Report

Summary, continued

Schedule of Findings, continued

Item No.	Page	Description
		PRIOR FINDINGS NOT REPEATED - None

Exit Conference

Commission management waived having an exit conference per correspondence dated November 15, 2011. Responses to the recommendations were provided by Samuel Pruett in correspondence dated December 13, 2011.

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

Independent Accountants' Report on State Compliance, on Internal Control Over Compliance, and on Supplementary Information for State Compliance Purposes

Honorable William G. Holland
Auditor General
State of Illinois

and

The Board of Commissioners
Illinois Medical District Commission

Compliance

As Special Assistant Auditors for the Auditor General, we have examined the Illinois Medical District Commission's (a component unit of the State of Illinois) (Commission) compliance with the requirements listed below, as more fully described in the Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide) as adopted by the Auditor General, during the year ended June 30, 2011. The management of the Commission is responsible for compliance with these requirements. Our responsibility is to express an opinion on the Commission's compliance based on our examination.

A. The Commission has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.

B. The Commission has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.

C. The Commission has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.

D. State revenues and receipts collected by the Commission are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.

E. Money or negotiable securities or similar assets handled by the Commission on behalf of the State or held in trust by the Commission have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

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We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act); and the Audit Guide as adopted by the Auditor General pursuant to the Act; and, accordingly, included examining, on a test basis, evidence about the Commission's compliance with those requirements listed in the first paragraph of this report and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Commission's compliance with specified requirements.

In our opinion, the Commission complied, in all material respects, with the compliance requirements listed in the first paragraph of this report during the year ended June 30, 2011. However, the results of our procedures disclosed instances of noncompliance, which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of findings as findings 11-1, 11-2 and 11-3.

Internal Control

Management of the Commission is responsible for establishing and maintaining effective internal control over compliance with the requirements listed in the first paragraph of this report. In planning and performing our examination, we considered the Commission's internal control over compliance with the requirements listed in the first paragraph of this report as a basis for designing our examination procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Audit Guide issued by the Illinois Office of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Commission's internal control over compliance.

A *deficiency in an entity's internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with the requirements listed in the first paragraph of this report on a timely basis. A material weakness over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a requirement listed in the first paragraph of this report will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we considered to be significant deficiencies as described in the accompanying schedule of findings as findings 11-1, 11-2 and 11-3. A *significant deficiency in an entity's internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

As required by the Audit Guide, immaterial finding excluded from this report has been reported in a separate letter to your office.

The Commission's responses to the findings identified in our examination are described in the accompanying schedule of findings. We did not examine the Commission's responses and, accordingly, we express no opinion on the responses.

Supplementary Information for State Compliance Purposes

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the business-type activities of the Commission as of and for the year June 30, 2011, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated December 13, 2011. The accompanying supplementary information, as listed in the table of contents as Supplementary Information for State Compliance Purposes, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Commission. The 2011 Supplementary Information for State Compliance Purposes, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2011 taken as a whole.

We have also previously audited, in accordance with auditing standards generally accepted in the United States, the Commission's basic financial statements for the year ended June 30, 2010. In our report dated February 15, 2011 of prior report on basic financial statements, we expressed unqualified opinions on the respective financial statements of the business-type activities. In our opinion, the 2010 Supplementary Information for State Compliance Purposes, except for the portion marked "unaudited," is fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2010, taken as a whole.

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

E. C. Ortiz & Co. LLP

December 13, 2011

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

The Board of Commissioners
Illinois Medical District Commission

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the business-type activities of the Illinois Medical District Commission (a component unit of the State of Illinois) (Commission), as of and for the year ended June 30, 2011, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated December 13, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Commission is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

E. C. Ortiz & Co. LLP

December 13, 2011

11-1 *Failure to Remit Unexpended Proceeds from the Sale of Commission Property into the Income Fund Held in the State Treasury*

The Illinois Medical District Commission (Commission) did not remit unexpended proceeds from the sale of Commission property to the State Treasury for deposit into the Medical Center Commission Income Fund (Income Fund).

During fiscal year 2004, the Commission sold real property held by the Commission to the Federal Bureau of Investigation. The proceeds from the sale totaled $10,688,767. A portion of those proceeds were expended for authorized purposes in fiscal year 2004 and 2005. As of June 30, 2005, an estimated $8,152,049 of those proceeds had not been expended or obligated to liquidate an enforceable legal obligation existing as of June 30, 2005. In subsequent fiscal years, the Commission did not remit any of the unexpended proceeds from the 2004 sale of that property into the State Treasury but continued to use these funds for Commission activities. As of June 30, 2007, funds in the amount of $4,000,000 were pledged as collateral for the purposes of the issuance of a $40 Million Bond Offering in January of 2006. In addition, pursuant to a Commission Resolution dated May 23, 2006, the remainder of the funds were provided as collateral for a line of credit with a bank, originally $4,000,000, now at $3,000,000. This line of credit was used to acquire real property under eminent domain actions that were expected to be reimbursed through State funded appropriations. No State appropriations had been made as of June 30, 2011. As of June 30, 2011, the unexpended portion of these proceeds was $3,877,969.

The Illinois Medical District Act (70 ILCS 915/10) requires the Commission to remit to the State Treasurer for deposit into the Medical Center Commission Income Fund all monies on hand (originating from the sale of Commission property) as of June 30 in excess of $350,000 (except that the Commission may retain additional funds as are necessary to liquidate enforceable contractual obligations existing as of June 30, as long as such obligations are liquidated by September 30).

On December 31, 2008 the Office of the Attorney General issued a Formal Opinion (No. 08-004) on the issue. In summary, the Office of the Attorney General agreed with the Illinois Office of the Auditor General's position and concluded by stating that "If the Commission is interested in expanding its authority to lawfully retain monies in excess of the current statutory limitations, then it must address this issue with the General Assembly."

Further, not only, according to the Attorney General, were the monies at issue "on hand" and not properly remitted to the State Treasurer but they were used by the Commission as security for an unauthorized line of credit.

Commission officials stated that it continues to stand by its interpretation that the funds were liquidated and as a result, no amount is due to be remitted into the income fund.

Failure to remit the excess moneys to the State Treasury is a violation of State statutes. (Finding Code Nos. 11-1, 10-1, 09-2, 08-3, 07-8, 06-2, 05-3)

Recommendation

We recommend the Commission remit the excess moneys to the State Treasury for deposit into the Income Fund or seek statutory remedy.

Commission Response

The response of the Illinois Medical District Commission ("Commission") to the finding of the Auditor General regarding unexpended funds, remains, as stated in previous years, that the Commission did not remit unexpended proceeds from the sale of Commission property to the State Treasury because the proceeds have been expended. As the Commission has noted in prior responses to the Auditor General, $4,025,000 of the amounts that the Auditor General maintains must be deposited were expended upon the cash equity portion of bonds issued by the Illinois Finance Authority pursuant to an intergovernmental agreement between the State of Illinois, by and through its Office of Management and Budget, and the Commission. The remainder was expended as collateral for a line of credit that was used in the acquisition of parcels of land by eminent domain. Condemnation can be a protracted process. The line of credit has been used to avoid having to dismiss and re-file cases, a process that would have provided sellers with the opportunity to reappraise their properties and increase their demands. The net effect of the line of credit has been to save taxpayers money in acquisitions that were authorized by the General Assembly and the Governor.

The Commission acknowledges and understands that both the Auditor General and Attorney General disagree with measures taken by the Commission in furtherance of its legislatively-mandated purposes. These disagreements do not change the facts that the measures taken were within the authority of the Commission, they were undertaken in good faith and that, as a result of these steps, there are no unexpended funds available for deposit into the State Treasury. The Attorney General has suggested that legislative action is required to resolve this matter. The Commission agrees with the Attorney General on this point, and continues to pursue that course.

Auditors' Comment

The auditors continue to stand by the finding based on the same criteria that were cited in the prior six audits, namely that:

The Illinois Medical District Act states:

Beginning in 1993, not later than July 10 of each year, the Commission shall transmit to the State Treasurer for deposit into the Medical Center Commission Income Fund all monies on hand at June 30 in excess of $350,000 without deduction or offset of any kind, except that the Commission may retain such additional funds as are necessary to pay enforceable contractual obligations existing as of June 30 and which will be paid not later than September 30 of that year. All monies retained for the payment of these obligations and not paid out by September 30, shall be remitted in full to the State Treasury, without deduction or offset of any kind, not later than October 10 of the same year.
70 ILCS 915/10

Under the statute, by October 10th of each year money is either expended or it is on hand. Under common everyday usage, the term "expended" means paid out. This definition is also consistent with usage in State government. Under the plain meaning of the law, money on hand in excess of $350,000 must be remitted to the State Treasury in the time frame set forth in Section 10. The auditors do not believe the statute allows the Commission to hold for an indefinite period of time an unlimited accumulation of money that has been "set aside" or "pledged as collateral" or "committed" but not paid out.

Not only, according to the Attorney General, were the monies at issue "on hand" and not properly remitted to the State Treasurer but they were used by the Commission as security for an unauthorized line of credit. The auditors continue to believe these monies should be remitted to the State Treasury.

Furthermore, in the Commission's past responses to this finding and in response to a suggestion by the Attorney General, the Commission stated that they were going to diligently pursue legislative action to resolve this matter. The Commission has made no attempt at such legislative action since providing that same response to this finding in the last two years. In the meantime, the Commission remains in non-compliance with this statute and with the Attorney General's opinion that the $3-$4 million used as bank collateral were for an unauthorized line-of-credit.

11-2 *Noncompliance with the Illinois Procurement Code*

The Illinois Medical District Commission (Commission) did not comply with the Illinois Procurement Code.

During the year, the Commission disbursed funds (subsequently reimbursed by a grant from the Illinois Department of Commerce and Economic Opportunity) to five vendors, totaling $115,850. We noted that the total payments to each of these five vendors, ranging from $13,103 to $38,146, were made in increments within two to four months and none of them were reduced to written contracts. Consequently, the Commission did not file copies of contracts with the Office of the Comptroller.

The Illinois Procurement Code (30 ILCS 500/20-80(b)) requires that when a grant or contract liability (except contracts paid from personal services and contracts between the State and its employees to defer compensation) exceeding $10,000 is incurred by any State agency, a copy of the contract shall be filed with the Comptroller's Office within 15 days. Also, the Illinois Procurement Code (30 ILCS 500/20-80(b)) requires any cancellation or modification to any such contract liability shall be filed with the Comptroller within 15 days of its execution.

The Illinois Procurement Code (30 ILCS 500/20-80(d)) requires timely execution of contracts and states that vendors shall not be paid for any goods that were received or services that were rendered before the contract was reduced to writing and signed by all necessary parties. Additionally, Public Acts 96-0795 and 96-0920 amended the contract files section in the Illinois Procurement Code (30 ILCS 500/20-80) where the Public Acts increased the contract filing threshold for Professional & Artistic Services contracts from $5,000 to $10,000 and require that all contracts be reduced to writing before services are rendered or goods are received.

We also noted that the Commission made two emergency purchases for legal services. One of the contracts (not to exceed $100,000) was for legal services relating to various administrative, zoning and other legal matters, while the other contract (not to exceed $40,000) was for legal services relating to the defense of the Chicago Technology Park Corporation (Corporation) (a former component unit of the Commission), voluntarily dissolved on June 26, 2009.

These emergency purchases were renewals of emergency contracts entered into the fiscal year 2009. We noted the following in regard to these contracts:

- Governor's prior approval for non-competitive procurement of legal contracts was not obtained;
- Legal services were for the Corporation, which is no longer in existence, and according to the Commission, any liability which may arise in relation to the Corporation would presumably be paid out of the liquidating trust, which in and of itself, is not a component unit of the Commission;
- Emergency purchase affidavits were not filed with the Office of the Auditor General; and
- Emergency purchase information for these vendors were not published in the Illinois Procurement Bulletin.

The Illinois Procurement Code (30 ILCS 500/1-5 and 500/1-10 (b) (7)) requires that the principles of competitive bidding and economical procurement practices shall be applicable to all purchases and contracts by or for any State agency except to contracts necessary to prepare for anticipated litigation, enforcement actions, or investigations, provided that the chief legal counsel to the Governor shall give his or her prior approval.

The Illinois Procurement Code (30 ILCS 500/20-30(b)) requires that notice of all emergency procurements shall be provided to the Procurement Policy Board and published in the online electronic Bulletin no later than 3 business days after the contract is awarded. The Illinois Procurement Code (30 ILCS 500/20-30(c)) states that a chief procurement officer making a procurement under this Section shall file affidavits with the Procurement Policy Board and the Auditor General within 10 days after the procurement setting forth the amount expended, the name of the contractor involved, and the conditions and circumstances requiring the emergency procurement. When only an estimate of the cost is available within 10 days after the procurement, the actual cost shall be reported immediately after it is determined.

Commission officials stated that they initially believed that the actions taken in this matter were conducted in accordance with the Illinois Procurement Code.

Failure to obtain the Governor's prior approval for noncompetitive procurement, publish the notice on emergency purchases, file of the affidavits and file copies of contracts with the Office of the Comptroller resulted in noncompliance with the Illinois Procurement Code. (Finding Code No. 11-2, 10-2)

Recommendation
We recommend the Commission comply with the Illinois Procurement Code.

Commission Response

The Commission agrees with the recommendation to comply with the Illinois Procurement Code.

11-3 *Noncompliance with Loan and Security Agreement*

The Illinois Medical District Commission (Commission) did not comply with the terms of the loan and security agreement with the Illinois Finance Authority (Authority).

During the year, the Commission had a debt service coverage ratio of 0.31 resulting from Revenue Property of $750,512 and Principal and Interest payments of $2,409,471.

The loan and security agreement between the Authority and the Commission dated January 1, 2006 requires the Commission to achieve a debt service coverage ratio of at least 1.05.

Commission officials stated that during 2009 the Commission re-evaluated two projects (Graduate Research Facility and the Tech Commercialization Center) which had previously been placed on hold. As of July 15, 2009 the Commission has replaced both with alternative projects that have been approved by the Commission's bond counsel and the Authority. The start and time frame of these projects are undetermined as they are contingent on key real estate transactions. These changes have caused the timing of revenue sources to be delayed and have therefore caused the Commission's debt service coverage ratio to fall below the required level. The Commission requested a waiver on September 21, 2011 for all covenants required by the loan and security agreement dated January 1, 2006 which the Commission has not met.

The Commission's failure to achieve the required debt service coverage ratio results in noncompliance with the loan and security agreement. (Finding Code No. 11-3)

Recommendation

We recommend the Commission ensure compliance with the debt service coverage ratio.

Commission Response

The Commission agrees with the recommendation. During September 2011 certain additional properties included in the revenue bond agreement began producing revenue. This will increase the Commission's debt service ratio during the next fiscal year.

State of Illinois
Illinois Medical District Commission
(A Component Unit of the State of Illinois)

Financial Statement Report

Summary

The audit of the accompanying basic financial statements of the Illinois Medical District Commission (Commission) was performed by E.C. Ortiz and Co., LLP.

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

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

Independent Auditors' Report

Honorable William G. Holland
Auditor General
State of Illinois

and

The Board of Commissioners
Illinois Medical District Commission

As Special Assistant Auditors for the Auditor General, we have audited the accompanying basic financial statements of the business-type activities of the Illinois Medical District Commission (a component unit of the State of Illinois) (Commission) as of and for the year ended June 30, 2011, as listed in the Table of Contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from the Commission's June 30, 2010 financial statements and, in our report dated February 15, 2011, we expressed an unqualified opinion on those financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Commission as of June 30, 2011, and the respective changes in net assets and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2011 on our consideration of the Commission'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 describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Commission has not presented a management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

December 13, 2011

State of Illinois
Illinois Medical District Commission
(A Component Unit of the State of Illinois)
Statement of Net Assets

	June 30, 2011	June 30, (Comparative Totals Only) 2010
ASSETS		
Current assets:		
Cash and cash equivalents (Notes 2 & 3)	$ 329,297	$ 691,103
Short-term investments (Notes 2 & 3)	250,139	226,119
Accounts receivable - net (Notes 2 & 4)	1,369	76,681
Interest receivable (Note 4)	127,418	138,968
Notes receivable (Note 4)	1,106,405	1,076,805
Debt issuance costs (Note 2)	32,714	32,714
Total current assets	1,847,342	2,242,390
Noncurrent assets:		
Cash and cash equivalents, restricted (Notes 2 & 3)	1,004,171	323,286
Notes receivable (Notes 2 & 4)	30,688,473	31,794,878
Investments (Note 3)	3,225,778	2,909,251
Debt issuance costs - net (Note 2)	607,943	640,656
Capital Assets - net (Note 5)	60,354,591	61,141,322
Other assets	28,367	36,165
Total noncurrent assets	95,909,323	96,845,558
TOTAL ASSETS	97,756,665	99,087,948
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses	340,619	394,313
Deferred revenue (Note 12)	680,881	-
Interest payable (Note 6)	799,421	794,208
Security deposits	347,293	332,073
Certificates of participation (Note 6)	740,000	710,000
Due to other State agency (Note 6)	520,000	360,000
Line of credit (Note 6)	3,000,000	3,000,000
Total current liabilities	6,428,214	5,590,594
Noncurrent liabilities:		
Capital lease obligations (Notes 2 & 7)	-	21,500
Compensated absences	55,849	58,367
Certificates of participation (Note 6)	25,185,000	25,925,000
Due to other State agency (Note 6)	34,003,278	33,074,353
Total noncurrent liabilities	59,244,127	59,079,220
TOTAL LIABILITIES	65,672,341	64,669,814
NET ASSETS (Note 2)		
Invested in capital assets, net of related debt	22,809,813	24,664,962
Restricted:		
Expendable for capital projects	23,290	23,286
Unrestricted	9,251,221	9,729,886
TOTAL NET ASSETS	$ 32,084,324	$ 34,418,134

See accompanying notes to basic financial statements.

State of Illinois
Illinois Medical District Commission
(A Component Unit of the State of Illinois)
Statement of Revenues, Expenses, and Changes in Net Assets

	Year Ended June 30,	
	2011	(Comparative Totals Only) 2010
OPERATING REVENUES		
Rental income	$ 3,141,771	$ 3,234,937
Other operating revenues	24,990	17,722
Total operating revenues	3,166,761	3,252,659
OPERATING EXPENSES		
Property management and development	2,510,004	2,436,863
Depreciation expense	1,150,499	1,070,695
Amortization expense	32,714	32,714
Total operating expenses	3,693,217	3,540,272
Operating loss	(526,456)	(287,613)
NONOPERATING REVENUES (EXPENSES)		
Investment income	1,393,356	1,587,094
Interest expense	(3,370,570)	(3,366,965)
Net nonoperating expenses	(1,977,214)	(1,779,871)
Loss before other revenues, expenses, gains and losses	(2,503,670)	(2,067,484)
Loss on disposal of capital assets	-	(1,111,887)
Capital grants	169,860	-
Capital transfers from other state agencies	-	13,399
Decrease in Net Assets	(2,333,810)	(3,165,972)
NET ASSETS		
Net assets, beginning of year	34,418,134	37,584,106
Net assets, end of year	$ 32,084,324	$ 34,418,134

See accompanying notes to basic financial statements.

State of Illinois
Illinois Medical District Commission
(A Component Unit of the State of Illinois)
Statement of Cash Flows

	June 30, 2011	(Comparative Totals Only) 2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments received from tenants	$ 3,233,549	$ 3,410,096
Payments to suppliers	(1,594,249)	(2,354,814)
Payments to employees	(941,418)	(919,719)
Net cash provided by operating activities	697,882	135,563
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Draws on loan from other State agency	2,037,347	2,396,022
Payments on loan from other State agency	(948,422)	(812,540)
Purchase of capital assets	(363,768)	(673,045)
Principal paid on capital debt and leases	(20,507)	(19,559)
Proceeds from capital debt	-	6,079
Proceeds from capital grants	850,741	-
Interest paid on capital debt and leases	(3,365,357)	(3,375,577)
Net cash used in capital financing activities	(1,809,966)	(2,478,620)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	1,761,385	1,769,633
Collections on notes receivable	366,805	363,416
Interest income on investments	1,439,044	1,533,291
Purchase of investments	(2,136,071)	(2,565,423)
Net cash provided by investing activities	1,431,163	1,100,917
Net increase (decrease) in cash and cash equivalents	319,079	(1,242,140)
Cash and cash equivalents, beginning of year	1,014,389	2,256,529
Cash and cash equivalents, end of year	$ 1,333,468	$ 1,014,389

See accompanying notes to basic financial statements.

State of Illinois
Illinois Medical District Commission
(A Component Unit of the State of Illinois)
Statement of Cash Flows

	June 30, 2011	June 30, (Comparative Totals Only) 2010
Reconciliation of operating loss to net cash provided by operating activities:		
Operating Loss	$ (526,456)	$ (287,613)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Non-cash expenses included in operating income:		
Depreciation	1,150,499	1,070,695
Amortization	32,714	32,714
Non-capitalized transfers from other State Agencies	-	13,399
Changes in assets and liabilities:		
Accounts receivable	75,312	238,832
Other assets	7,798	(12,214)
Accounts payable	(54,687)	(859,865)
Security deposits	15,220	(74,461)
Compensated absences	(2,518)	14,076
Net cash provided by operating activities	$ 697,882	$ 135,563
NON-CASH ITEMS		
Capital additions from project fund held by Trustee	$ -	$ 5,757,087
Non-cash payments received on notes receivable	$ 710,000	$ 680,000
Non-cash payments made on certificates of participation	$ 710,000	$ 680,000

See accompanying notes to basic financial statements.

1. Organization

The Illinois Medical District Commission (Commission), a special district created by statute (70 ILCS 915/0.01 et. seq.), is considered part of the executive branch of the State of Illinois and operates under the authority and review of the Illinois General Assembly. Activities of the Commission are subject to the authority of the Office of the Governor, the State's chief executive officer, and other departments of the executive and legislative branches of government (such as the Comptroller's Office) as defined by the General Assembly. All non-appropriated funds received by the Commission are deposited in locally held funds under the control of Commission management.

The purpose of the Commission is to maintain the proper surroundings for a medical center and a related technology center in order to attract, stabilize, and retain therein hospitals, clinics, research facilities, or other facilities permitted under the Illinois Medical District Act (Act). Also, the Commission is to provide for the orderly creation and expansion of various county and local governmental facilities, other ancillary or related facilities, medical research and high technology parks, together with the necessary land, buildings, facilities, equipment, and personal property as permitted under the Act, and administering and exercising ultimate authority for the Chicago Technology Park.

2. Significant Accounting Principles and Policies

The accompanying basic financial statements of the Commission have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as prescribed in pronouncements of the Governmental Accounting Standards Board (GASB).

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 officials of the primary government are financially accountable. Financial accountability is defined as:

- Appointment of a voting majority of the component unit's board and either (a) the primary government's ability to impose its will, or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or

- Fiscal dependency on the primary government.

Based upon the required criteria, the Commission is a component unit of the State of Illinois financial reporting entity. The financial balances and activities included in these basic financial statements are, therefore, also included in the State's comprehensive annual financial report. The State of Illinois' Comprehensive Annual Financial Report (CAFR) may be obtained by writing to the State Comptroller's Office, Financial Reporting Department, 325 West Adams Street, Springfield, Illinois 62704.

The Commission's reporting entity includes the Commission's governing board and all related organizations for which the Commission exercises oversight responsibility. Currently there are no related organizations that meet the criteria noted above.

Basis of Accounting

For financial reporting purposes the Commission is considered a special-purpose government engaged only in business-type activities as defined by GASB Statement No. 34. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. Accordingly, the Commission's financial statements have been presented on 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. Revenue from grants, entitlements, and similar items are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been met.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, the Commission follows all applicable Governmental Accounting Standards Board (GASB) pronouncements. In addition, the Commission applies all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins of the committee on Accounting Procedures issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The Commission has elected not to apply FASB pronouncements issued after November 30, 1989. These statements and interpretations were superseded by the FASB Accounting Standards Codification.

The Commission has adopted GASB Statement No. 59, *Financial Instruments Omnibus* during the fiscal year ended June 30, 2011.

Appropriations made from the State of Illinois General Revenue or Capital Development Funds for the benefit of the Commission are recognized as revenues to the extent expended, limited to available appropriations and represent only the portion of these shared funds that can be directly attributed to the operations of the Commission. Financial statements for total fund operations of the shared State funds are presented in the State of Illinois CAFR. In presenting these financial statements, certain unique accounts are used for the presentation of shared funds. The following accounts are used in these financial statements to present the Commission's portion of shared funds:

Unexpended Appropriation
This "asset" account represents lapse period warrants issued between July and August annually in accordance with the Statewide Accounting Management System (SAMS) records plus any liabilities relating to obligations re-appropriated to the subsequent fiscal year.

State Appropriations
This account represents the final legally adopted appropriation according to SAMS records to the extent it was expended by the Commission. The amounts reported are net of any re-appropriations to subsequent years and the difference between current and prior year liabilities for re-appropriated accounts. Re-appropriations reflect that State's realignment of the budgetary needs to the subsequent year and avoid double counting a portion of the appropriation in more than one fiscal year.

During fiscal year 2011 the Commission did not receive an appropriation from the State of Illinois.

Classification of Revenues
The Commission has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues: Operating revenues include activities that directly relate to the operational purposes of the Commission and primarily include rent and service payments from tenants.

Nonoperating revenues: Nonoperating revenues include State appropriations and investment income.

Cash and Cash Equivalents
Cash and cash equivalents include debt securities with a maturity of 90 days or less at the time of acquisition, money market accounts, and cash in banks for locally held funds.

Investments

Investments include certificates of deposit and United States Treasury and Agency Obligations with maturities in excess of 90 days at the time of acquisition. Investments are carried at fair market value.

Accounts and Notes Receivable

Accounts receivable include amounts due from tenants for rent, parking, or other chargeable costs. The amounts are presented net of an allowance for doubtful accounts. Notes receivable includes amounts due from the University of Illinois and the Illinois State Police related to installment sales of real property.

Debt Issuance Costs

Debt issuance costs are amortized over the life of the loans using the straight-line method.

Capital Assets

Capital assets include property and equipment which are reported at cost. Donated assets are reported at estimated fair value when received. Capital assets are depreciated using the straight-line method.

Capitalization thresholds and estimated useful lives are as follows:

Capital Asset Category	Capitalization Threshold	Estimated Useful Life
Land	$100,000	N/A
Land Improvements	25,000	N/A
Site Improvements	25,000	3-50
Buildings	100,000	10-60
Building Improvements	25,000	10-45
Intangible Assets	100,000	3-25
Equipment	5,000	3-25

Compensated Absences

The liability for compensated absences consists of vested, accumulated paid time off leave balances for Commission employees. The liability has been calculated based on the employees' current salary level and includes salary related costs (e.g., FICA and Medicare tax).

Net Assets
In the financial statements, equity is displayed in three components as follows:

Invested in Capital Assets, Net of Related Debt - This consists of capital assets, net of accumulated depreciation, less the outstanding balances of revenue bonds payable (net of unspent proceeds), capital lease obligations, lines of credit, and other liabilities that are attributable to the acquisition, construction, or improvement of those assets.

Restricted - This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the Commission's policy to use restricted resources first, then unrestricted resources when they are needed.

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

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

Reclassifications
Certain prior year amounts have been reclassified in order to conform to the current year presentation.

3. Deposits and Investments

The Public Funds Investment Act and Public Funds Deposit Act (30 ILCS 235/1 et seq. and 30 ILCS 225/1 et seq.) provide general guidance concerning the criteria to be met for the placement of public funds in a financial institution and the types of investment instruments permitted. These statutes authorize the Commission to purchase certain obligations of the U.S. Treasury, Federal agencies and instrumentalities; certificates of deposit and time deposits covered by Federal depository insurance; commercial paper of U.S. corporations with assets exceeding $500,000,000, if such paper is rated at the highest classification established by at least two standard rating services; money market mutual funds and investment in the Illinois Funds.

A reconciliation of deposits and investments presented below and the financial statement captions shown on the Statement of Net Assets for the year ended June 30, 2011 is as follows:

Carrying amount of deposits	$ 800,562
Carrying amount of investments	4,008,823
	$ 4,809,385
Cash and cash equivalents	$ 329,297
Cash and cash equivalents, noncurrent restricted	1,004,171
Short-term investments	250,139
Investments	3,225,778
	$ 4,809,385

The State Treasurer is the custodian of the State's cash and cash equivalents for funds maintained in the State Treasury. The Commission independently manages cash and cash equivalents maintained outside the State Treasury. As of June 30, 2011, no Commission funds were held in the State Treasury.

Deposits

The Commission utilizes different bank accounts for the various activities of the Commission. The book balance of such accounts was $800,562 at June 30, 2011, while the bank balance was $814,483 at June 30, 2011. The difference between the above amounts primarily represents checks and deposits which had not cleared the bank.

Custodial credit risk for deposits exists when, in the event of the failure of a depository financial institution, the Commission's deposits may not be recovered. As of June 30, 2011, the Commission's deposits were covered by the Federal Deposit Insurance Corporation (FDIC) and by collateral held by the financial institution in the Commission's name. The Commission therefore, has no custodial credit risk related to its deposits.

Investments

As of June 30, 2011 the Commission had the following investments:

Investment	Carrying Amount/ Fair Value	Maturity: Less than 1 Year	Maturity: 1 to 5 Years	Maturity: 6 to 10 Years	Rating
U.S. Agencies	$ 2,721,541	$ -	$ 1,336,492	$ 1,385,049	Aaa/AAA*
Time Deposits	754,375	250,138	252,324	251,913	Not rated
Money Market	532,907	532,907	-	-	Not rated
Total	$ 4,008,823	$ 783,045	$ 1,588,816	$ 1,636,962	

** Moody's Rating/Standard & Poor's Ratings as of June 30, 2011.*

Investments amounting to $3,685,533 held in money markets, time deposits and U.S. Agency Obligations serve as collateral for the $3,000,000 line of credit with MB Financial Bank.

Interest Rate Risk
In order to limit interest rate risk, the Commission adheres to the State of Illinois Public Funds Investment Act, 30 ILCS 235.

4. Accounts, Interest and Notes Receivable

Accounts receivable include amounts due from tenants for rent, parking, or other chargeable costs. The following table presents the amounts due to the Commission by major type as well as the related allowance for doubtful accounts.

	Accounts Receivable	Allowance for doubtful accounts	Net
Rents and related fees	$ 328,685	$ (327,316)	$ 1,369

Rents and related fees above include several receivables that are over 360 days past due. The Commission has exhausted all means of collection against former tenants with balances past due. During fiscal year 2011, the Commission filed a request with the Illinois State Comptroller's office for approval to eliminate these old receivables from its account balances.

Interest receivable includes interest due from the University of Illinois of $108,993 related to the installment sale of real estate as described in note 6.

Notes receivable inclusive of imputed interest represents two installment sales contracts. The first contract is with the University of Illinois and relates to the installment sale agreement described in Note 6. The contract calls for annual principal payments of $215,700 each December 1 through the year 2032 for the land portion of the agreement and principal and interest payments equal to the principal and interest payments due on the certificates of participation as noted in note 6.

The second contract was entered into with the Illinois State Police (ISP) in July 2004. In accordance with this contract, the Commission sold certain parcels of land and agreed to construct a parking lot thereon. In turn, the ISP will make annual payments (inclusive of imputed interest) over 20 years, totaling $2,164,668.

5. Capital Assets

	July 1, 2010	Additions	Deletions	June 30, 2011
Cost:				
Land and Land Improvements	$ 41,801,083	$ 54,400	$ -	$ 41,855,483
Site Improvements	3,044,776	-	-	3,044,776
Buildings and Building Improvements	22,727,639	309,368	-	23,037,007
Equipment	190,934	-	-	190,934
Total Cost	67,764,432	363,768	-	68,128,200
Less Accumulated Depreciation:				
Site Improvements	447,581	101,493	-	549,074
Buildings and Building Improvements	6,034,879	1,027,144	-	7,062,023
Equipment	140,650	21,862	-	162,512
Total	6,623,110	1,150,499	-	7,773,609
Capital Assets, Net	$ 61,141,322			$ 60,354,591

6. Lines of Credit and Long-Term Debt

Interest Payable

Interest payable includes interest due to the Illinois Finance Authority of $680,428, interest payable on certificates of participation of $108,993, and $10,000 interest payable on the line of credit.

Lines of Credit

On January 5, 2011, the Commission renewed the line of credit ("Property Credit Line") with MB Financial Bank, N.A. The amount of this line of credit is $3,000,000 with a variable interest rate (4.0% at June 30, 2011). This line matures on January 5, 2012 and is collateralized by certain Commission deposits and investments held in MB Financial Bank. This line of credit is used to make property acquisitions in the District, and is intended to be repaid by funds received from the State's capital budget at a later date.

Changes in short-term debt were as follows:

	Balance July 1, 2010	Net Advances	Balance June 30, 2011
Property credit line – MB Financial Bank	$ 3,000,000	-	$ 3,000,000

Due to Other State Agency

On January 31, 2006, the Illinois Finance Authority (IFA) issued $40 million of revenue bonds (Series 2006) on behalf of the Commission. Concurrently, the Commission and the IFA entered into a loan and security agreement, in which the IFA is to loan the $40 million to the Commission. The intent of this undertaking was to purchase certain real estate parcels within the Illinois Medical District and to construct a facility to be used for life science research and/or other medical related activities. The security for the loan agreement includes all cash and investments in the trust accounts related to the revenue bonds held on behalf of the IFA (including a Debt Service Reserve Fund discussed below), the revenues from the acquired and built properties, pledged revenues from additional property owned by the Commission and the moral obligation of the State of Illinois.

Changes in debt payable to the Illinois Finance Authority were as follows:

	Balance July 1, 2010	Draws	Payments	Balance June 30, 2011
Due to IFA	$ 33,434,353	$ 1,448,925	$ 360,000	$ 34,523,278

Certain cash and investment trust accounts held on behalf of the IFA have been netted against the payable to the IFA in the Commission's basic financial statements. These funds have not yet been utilized by the Commission and are under the control of the IFA. A reconciliation of amounts payable to the IFA is shown in the debt service schedule below.

Interest is paid on September 1 and March 1 of each year beginning in September 2006 with principal payments made on the September date only, beginning in 2010.

Future principal and interest requirements on the loan at June 30, 2011 are as follows (in thousands):

Year ending June 30,	Principal	Interest	Total
2012	$ 520	$ 2,029	$ 2,549
2013	680	2,000	2,680
2014	840	1,964	2,804
2015	1,320	1,911	3,231
2016	1,395	1,844	3,239
2011-2021	8,060	8,077	16,137
2022-2026	10,360	5,707	16,067
2027-2031	13,360	2,626	15,986
2032	3,105	81	3,186
Total	$ 39,640	$ 26,239	$ 65,879
Less amounts held in trust	5,117	-	5,117
Amount due to IFA	$ 34,523	$ 26,239	$ 60,762

Debt Service Reserve Funds (DSR)
Within the provisions of the revenue bonds issued by the IFA, it is specified that funds be set aside that will serve as a debt service reserve for the bonds. These funds are equivalent to one year's debt service (approximately $3.4 million in total) and are to be used whenever a deficiency exists in the payment of principal and/or interest on the Series 2006 Revenue Bonds. These funds are included in the trust assets above.

Debt Service Ratio
The loan and security agreement dated January 1, 2006 requires the Commission to achieve a debt service ratio of at least 1.05. For the year ended June 30, 2011, the Commission had a debt service ratio of 0.31. However, the Commission was able to make the required debt service payments during the year ended June 30, 2011.

During 2009 the Commission re-evaluated two projects (Graduate Research Facility and the Tech Commercialization Center) which had previously been placed on hold. As of July 15, 2009 the Commission has replaced both with alternative projects that have been approved by the Commission's bond counsel and the Illinois Finance Authority. The start and time frame of the projects are undetermined as they are contingent on key real estate transactions with the City of Chicago. These changes have caused the timing of revenue sources to be delayed and have therefore caused the Commission's debt service ratio to fall below the required level.

The Commission has requested a waiver for all covenants required by the loan and security agreement dated January 1, 2006 which the Commission has not met.

Certificates of Participation

On June 1, 2002, the Commission issued $30,625,000 of certificates of participation in connection with the construction of an office building for the use of the University of Illinois, near its facility on the west side of Chicago. These certificates will mature each June 1 from 2004 to 2032 at various amounts. The coupon rate on the certificates of participation varies from 2.35% to 5.25% with interest paid semi-annually on June 1 and December 1. The balance outstanding was $25,925,000 as of June 30, 2011.

Changes in long-term debt related to certificates of participation were as follows:

	Balance July 1, 2010	Draws	Payments	Balance June 30, 2011
Certificates of participation	$ 26,635,000	$ -	$ 710,000	$ 25,925,000

Sinking fund maturities and interest requirements on the certificates of participation payable at June 30, 2011 are as follows (in thousands):

Year ending June 30,	Principal	Interest	Total
2012	$ 740	$ 1,308	$ 2,048
2013	770	1,276	2,046
2014	805	1,242	2,047
2015	840	1,206	2,046
2016	880	1,167	2,047
2017-2021	5,085	5,150	10,235
2022-2026	6,495	3,736	10,231
2027-2031	8,365	1,873	10,238
2032	1,945	102	2,047
Sub-Total	$ 25,925	$ 17,060	$ 42,985
Less current portion	740		
Total	$ 25,185		

In connection with the issuance, the Commission entered into an installment purchase contract with the University of Illinois for the aforementioned building and the respective land on which it stands. The installment payments related to the building (Note 4) are scheduled at the same time and the same amounts as the payments on the certificates of participation. In addition, as part of the issuance process, the Commission purchased credit insurance on the certificates of participation which guarantees the payments of principal and interest when they become due.

7. Capitalized Lease Obligations

The Commission leases office equipment with a cost and accumulated deprecation of $98,402 and $78,721, respectively, under capital lease arrangements at June 30, 2011. Future minimum lease payments at June 30, 2011 are as follows:

Fiscal Year	Amount
2012	$ 22,056
Total minimum lease payments	22,056
Less: amounts representing interest	556
Present value of minimum lease payments	$ 21,500

8. Risk Management

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; workers compensation, and natural disasters.

The Commission maintains commercial coverage for its automobiles, workers compensation and property liability.

9. Contingencies

The Chicago Technology Park Corporation (a component unit of the Commission), voluntarily dissolved on June 26, 2009, received approximately $2.9 million of Federal funding under the BiTmaP grant program from the United States Department of Labor, subject to audit. Based on the outcome of this audit, the Corporation could be liable for a portion of the funding previously received. The results of the audit had not been finalized as of December 13, 2011.

The Commission is from time to time subject to various claims, legal actions, and inquiries related to compliance with environmental and other governmental laws and regulations. Although it is difficult to quantify the potential impact of these claims, management believes that the ultimate cost of these matters will not adversely affect the Commission's future financial condition or results of operations.

Accordingly, management does not believe that a reserve of the future effect, if any, of these matters in the basic financial statements of the Commission is necessary at June 30, 2011, as it is not possible to determine with any degree of probability the level of future expenditures for these matters.

10. Pension Plan

The Commission's full-time employees, who are not considered employees of the State, are eligible to participate in the Illinois Municipal Retirement Fund (IMRF), a pension trust fund covering employees of local governments and school districts in Illinois. Commission employees were eligible to enter the plan as of April 1, 2007. The IMRF was established under statutes adopted by the Illinois General Assembly.

Plan description

The Commission's defined benefit pension plan for Regular employees provides retirement and disability benefits, post retirement increases, and death benefits to plan members and beneficiaries. The Commission's plan is affiliated with the Illinois Municipal Retirement Fund (IMRF), an agent multiple-employer plan. Benefit provisions are established by statute and may only be changed by the General Assembly of the State of Illinois. IMRF issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained on-line at www.imrf.org.

Funding Policy

As set by statute, the Commission's Regular plan members are required to contribute 4.50 percent of their annual covered salary. The statutes require employers to contribute the amount necessary, in addition to member contributions, to finance the retirement coverage of its own employees. The employer contribution rate for calendar year 2010 used by the Commission was 12.24 percent of annual covered payroll. The employer annual required contribution rate for calendar year 2010 was 14.32 percent of annual covered payroll. The Commission also contributes for disability benefits, death benefits and supplemental retirement benefits, all of which are pooled at the IMRF level. Contribution rates for disability and death benefits are set by the IMRF Board of Trustees, while the supplemental retirement benefits rate is set by statute.

Annual Pension Cost

For calendar year ending December 31, 2010, the Commission's actual contributions for pension cost for the Regular plan were \$88,963. Its required contribution for calendar year 2010 was \$104,081.

Three Year Trend information for the Regular Plan

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/10	$ 104,081	85%	$ 15,118
12/31/09	$ 68,461	100%	$ -
12/31/08	$ 62,815	100%	$ -

The required contribution for 2010 was determined as part of the December 31, 2008, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at December 31, 2008, included (a) 7.5 percent investment rate of return (net of administrative and direct investment expenses), (b) projected salary increases of 4.00% a year, attributable to inflation, (c) additional projected salary increases ranging from 0.4% to 10% per year depending on age and service, attributable to seniority/merit, and (d) post retirement benefit increases of 3% annually. The actuarial value of the Commission's Regular plan assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period with a 20% corridor between the actuarial and market value of assets. The Commission's Regular plan's unfunded actuarial accrued liability at December 31, 2008 is being amortized as a level percentage of projected payroll on an open 10 year basis.

Funded Status and Funding Progress
As of December 31, 2010, the most recent actuarial valuation date, the Regular plan was 54.55 percent funded. The actuarial accrued liability for benefits was $715,826 and the actuarial value of assets was $390,454, resulting in an underfunded actuarial accrued liability (UAAL) of $325,372. The covered payroll for calendar year 2010 (annual payroll of active employees covered by the plan) was $726,824 and the ratio of the UAAL to the covered payroll was 45 percent.

The schedule of funding progress, presented below, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Schedule of funding progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c)
12/31/10	$ 390,454	$ 715,826	$ 325,372	54.55%	$ 726,824	44.77%
12/31/09	$ 267,874	$ 556,759	$ 288,885	48.11%	$ 615,108	46.96%
12/31/08	$ 182,240	$ 438,161	$ 255,921	41.59%	$ 491,897	52.03%

On a market value basis, the actuarial value of assets as of December 31, 2010 is $412,615. On a market basis, the funded ratio would be 57.64%.

11. Grant Funding

On May 12, 2011, the Department of Commerce and Economic Opportunity awarded the Commission a grant in the amount of $2.8 million. Grant funds are to be used for the site preparation and building improvements for various properties owned by the Commission within the Medical District. Grant funds received, but not earned totaling $680,881 as of June 30, 2011, have been recorded as deferred revenue in the Statement of Net Assets.

State of Illinois
Illinois Medical District Commission
(A Component Unit of the State of Illinois)

Supplementary Information for State Compliance Purposes
For the Year Ended June 30, 2011

Summary

Supplementary Information for State Compliance Purposes presented in this section of the report includes the following:

- Fiscal Schedules and Analysis
  - Schedule of Changes in State Property
  - Analysis of Significant Variations in Revenues and Expenses
  - Comparative Schedule of Expenses - Locally Held Funds (Non-Appropriated)
  - Comparative Schedule of Revenues - Locally Held Funds (Non-Appropriated)
  - Analysis of Significant Account Balances
  - Analysis of Accounts Receivable
- Analysis of Operations
  - Commission Functions and Planning Program
  - Average Number of Employees
  - Service Efforts and Accomplishments (Unaudited)

The accountants' report that covers the Supplementary Information for State Compliance Purposes presented in the Compliance Report Section states that it has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in the auditors' opinion, except for that portion marked "unaudited", on which they express no opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

State of Illinois
Illinois Medical District Commission
(A Component Unit of the State of Illinois)

Schedule of Changes in State Property
For the Years Ended June 30, 2011 and 2010

Cost:	July 1, 2010	Additions	Deletions	June 30, 2011
Land and Land Improvements	$ 42,033,257	$ 112,172	$ -	$ 42,145,429
Site Improvements	3,121,846	4,140	-	3,125,986
Buildings and Building Improvements	22,831,953	337,084	-	23,169,037
Equipment	334,141	6,986	(837)	340,290
Total Cost	$ 68,321,197	$ 460,382	$ (837)	$ 68,780,742

Cost:	July 1, 2009	Additions	Deletions	June 30, 2010
Land and Land Improvements	$ 40,935,231	$ 1,448,421	$ (350,395)	$ 42,033,257
Construction in Progress	1,106,402	-	(1,106,402)	-
Site Improvements	3,117,253	4,593	-	3,121,846
Buildings and Building Improvements	17,333,197	5,498,756	-	22,831,953
Equipment	438,608	9,444	(113,911)	334,141
Total Cost	$ 62,930,691	$ 6,961,214	$ (1,570,708)	$ 68,321,197

This summary schedule was prepared using State property records required by the Illinois Administrative Code. The capitalization policy in the Code is different than the capitalization policy established by the Office of the Comptroller for financial reporting in accordance with generally accepted accounting principles.

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Analysis of Significant Variations in Revenues and Expenses
For the Year Ended June 30, 2011

Following are explanations for significant variances between revenues and expense accounts which exceeded $50,000 and 15%:

	2011	2010	Increase (Decrease)	Comments
Revenues:				
Capital Grants	$ 169,860	$ -	$ 169,860	The Commission received a grant for $2.8 million from the Illinois Department of Commerce and Economic Opportunity in fiscal year 2011. Grant funds received and earned during the year amounted to $169,860.
Expenses:				
Loss on disposal of capital assets	$ -	$ 1,111,887	$ (1,111,887)	The Commission abandoned two construction projects during fiscal year 2010 which had previously incurred approximately $1.1 million of architect fees. There were no major projects abandoned in fiscal year 2011.

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Comparative Schedule of Expenses - Locally Held Funds (Non-Appropriated)
For the Years Ended June 30, 2011, and 2010

The following schedule of locally held fund expenditures have been derived from the audited financial statements of each year presented. The expenditures are presented using the accrual basis of accounting and present the locally held fund expenditures of the Commission.

	2011	2010
Illinois Medical District Restricted Fund (1377)		
Property management and development	$ 2,510,004	$ 2,436,863
Interest expense	3,370,570	3,366,965
Total - Fund 1377	5,880,574	5,803,828
Total All Funds	$ 5,880,574	$ 5,803,828

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Comparative Schedule of Revenues - Locally Held Funds (Non-Appropriated)
For the Years Ended June 30, 2011, and 2010

The following schedule of locally held fund revenues have been derived from the audited financial statements of each year presented. The revenues are presented using the accrual basis of accounting and present the locally held fund revenues of the Commission.

	2011	2010
Illinois Medical District Restricted Fund (1377)		
Rental income	$ 3,141,771	$ 3,234,937
Interest income	1,393,356	1,587,094
Other income	24,990	17,722
Total - Fund 1377	4,560,117	4,839,753
Total All Funds	$ 4,560,117	$ 4,839,753

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Analysis of Significant Account Balances
For the Year Ended June 30, 2011

Cash, Cash equivalents and investments

Cash, cash equivalents and investments consist of checking accounts, money market accounts and investments in U.S. Agency obligations. The Commission's cash and investments are classified as follows:

	2011	2010
Cash in Bank	$ 800,562	$ 201,630
Money Market	532,907	812,759
Time Deposits	754,375	253,399
U.S. Agencies	2,721,541	2,881,971
	$ 4,809,385	$ 4,149,759

Notes Receivable

On June 1, 2002 the Commission entered into an installment sale agreement for the sale of land and construction of a building for the University of Illinois. The Commission issued certificates of participation and constructed the building. The resulting receivable related to the building portion of the installment sale and the related debt have been treated as conduit debt issued by the Commission. The agreement calls for the University to make annual principal payments of $215,700 each December 1 through the year 2032 for the land portion of the agreement and principal and interest payments equal to the principal and interest payments due on the certificates of participation.

On July 26, 2004, the Commission entered into an installment agreement with the Illinois State Police for the sale of land and construction of a parking facility. The agreement calls for the Illinois State Police to make annual payments (inclusive of imputed interest) over 20 years, totaling $2,164,668. The first payment became due November 30, 2004 and the remaining payments are due annually in November.

Analysis of Significant Account Balances, continued
For the Year Ended June 30, 2011

Liabilities

A comparative analysis of Commission's liabilities is provided below:

	2011	2010
Accounts payable and accrued expenses	$ 340,619	$ 394,313
Deferred revenue	680,881	-
Interest payable	799,421	794,208
Security deposits	347,293	332,073
Line of credit	3,000,000	3,000,000
Capital lease obligations - net of current portion	-	21,500
Accrued vacation and sick time payable - net of current portion	55,849	58,367
Certificates of participation	25,925,000	26,635,000
Due to other State agency	34,523,278	33,434,353
	$ 65,672,341	$ 64,669,814

Net increase in total liabilities was mostly due to the increase in the amount due to the Illinois Finance Authority for amounts loaned to the Commission.

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Analysis of Accounts Receivable
For the Years Ended June 30, 2011, and 2010

Accounts Receivable balances were maintained for locally held funds during the audit period. Collections on accounts receivable are handled by the Executive Director or Chief Legal Counsel. If the Commission personnel cannot collect on a receivable, the Commission turns those receivables over to a collection agency. An aging of accounts receivable as of June 30,(excluding interest receivable is presented below:

	2011		2010	
Days Outstanding	Amount	Percent	Amount	Percent
One to thirty	$ -	0%	$ 4,723	1.2%
Thirty-one to three hundred sixty	1,039	0%	87,735	21.7%
Over three hundred sixty	327,646	100%	311,419	77.1%
	328,685	100.0%	403,877	100.0%
Estimated uncollectible amount	327,316		327,196	
Accounts Receivable (Net)	$ 1,369		$ 76,681	

Analysis of Operations
For the Year Ended June 30, 2011

Commission Functions and Planning Program

Description of Planning System:

Functions

The Illinois Medical District Commission (Commission) was created in 1941 by the Medical District Act (Act), 70 ILCS 915/0.01 et. seq. The Commission's primary purpose is that of assembling the nation's premier concentration of health care facilities and providers; fostering the economic expansion of Illinois by supporting the growth of its life science community; providing for the ongoing facilities, resources and expansions of social service organizations that assure the well-being of Illinoisans with disabilities; creating the State's largest emergency response and disaster preparedness community; and fostering cooperation and collaboration between Federal, State, County and Local governmental bodies in achieving these common objectives.

Currently the Commission's operations are funded by locally held funds and grant funds which are maintained in local banking institutions. Activities of the Commission are subject to the authority of the Office of the Governor, the State's chief executive officer, and other departments of the executive and legislative branches of government (such as the Comptroller's Office) as defined by the General Assembly. When awarded, funds appropriated to the Commission are under the custody and control of the State Treasurer. All other cash received is deposited in locally held funds under the control of Commission management.

The Commission's main office is located at 2100 W Harrison Street, Chicago, Illinois 60612 located within 560 acres of medical research facilities, labs, biotech business incubator, raw development area, universities, and over 40 healthcare related facilities. The District is one of the nation's largest urban medical districts, holds one of the nation's largest college of medicine, and the largest biotechnology/medical complex in the State of Illinois.

The Commission is directed by seven members (Commissioners) of which four are appointed by the Governor, two by the Mayor of Chicago, and one by the President of the Cook County Board. Commission officials are as follows:

<u>Principal Officers</u>
Mr. Samuel Pruett, Executive Director
Mr. Mark Jamil, Chief Legal Counsel
Mr. Peter Negro, Operations Manager

Analysis of Operations, continued
For the Year Ended June 30, 2011

Board of Commissioners
Mr. Kenneth D. Schmidt, M.D.
Mr. Abraham C. Morgan
Dr. Leon M. Dingle, Jr.
Mr. John E. Partelow
Mr. Bob J. Nash
Mr. Larry M Doody
Ms. Meghan K. Harte

The Commission holds regular meetings as needed, including a meeting in November each year for the election of officers.

By Statute, the Commission has mandated functions which include the following:

- Report biennially to the General Assembly;
- Acquire or lease property within the District by right of eminent domain;
- Regulate the use of the property within the District, for the use of medical and other related institutions, for housing related to medical purposes, for certified historical district, and for a high technology medical research park;
- Construct or permit to be constructed buildings related to these special uses;
- Borrow funds for activities;
- Sell, convey, transfer, or lease real estate to qualified users;
- Improve and manage the District to provide the most favorable conditions for care and treatment of the sick and injured, and for the study of disease; and
- Cooperate with related groups, like the Chicago City Planning Commission.

While this list is not comprehensive, the Commission has a significant responsibility to the District and the institutions within the District. The Commission has the responsibility of coordinating the efforts of all organizations within the District, which include the Commission, Rush University Medical Center, John H. Stroger, Jr. Hospital of Cook County, University of Illinois Medical Center and the Jesse Brown V.A. Medical Center.

Planning Program

The Commission's enabling statute mandates many functions and activities, and the Commissioners translate these statutory mandates into programs, actions, and management of the Commission and District. The annual budget requirements include discussions of short-term objectives and the master plan (as revised) discusses the Commission's long-term goals and objectives.

Analysis of Operations, continued
For the Year Ended June 30, 2011

The Commission has a development plan and program on file concurred by the major District institutions and by the Chicago Department of Planning in 1984. This flexible and evolving plan outlines goals and policies to clarify the purpose of the Commission and provides overall guidance for its successful development. These goals and policies include:

- To expand the economic base of the City and provide greater job opportunities;
- To utilize scientific and technological excellence to attract new industry;
- To provide incubator facilities for nurturing new enterprises;
- To provide facilities to support and complement new development;
- To optimize accessibility to the area for employees;
- To make the Corporation visually distinguished and attractive;
- To provide a high level security;
- To provide amenities for employees and visitors;
- To encourage the development of supporting facilities; and
- To encourage the conservation and renovation of adjacent residential areas.

Currently, the Illinois Medical District's (District) acquisition program is focused south of Roosevelt Road – the District Development Area – where the District is the majority property owner. This redevelopment effort is one of the largest comprehensive redevelopment projects within the City of Chicago. For the past several years, the District has been acquiring and demolishing vacant, abandoned, older or dilapidated properties in order to assemble developable parcels for medical, governmental and institutional development. In close proximity or adjacent to existing new development, this program continues with projects that are at or near completion. As part of this comprehensive redevelopment process, the Commission has coordinated and collaborated with other local government and regulatory agencies.

The measures of performance that Commission management uses a status reports on land acquisitions, buildings or renovations of facilities statistics and statistics on the percent of occupancy for Commission owned buildings. These measures are adequate for their needs, since their main function is to obtain land and to convey it to appropriate users, and facilitate meeting bond debt service obligations.

For financial reporting purposes, the Commission is considered a special-purpose government engaged only in business-type activities as defined by GASB Statement No. 34. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services.

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Analysis of Operations, continued
For the Year Ended June 30, 2011

Average Number of Employees

The average number of employees at the Commission during the fiscal years 2011, 2010 and 2009 is as follows:

	2011	2010	2009
Administration	5	5	5
Maintenance	3	3	2
Clerical	1	1	1
Contractual Positions	2	2	7
Total	11	11	15

The above schedule includes all employees of the Commission, and certain professional, maintenance and clerical positions paid on a contractual basis.

Analysis of Operations, continued
For the Year Ended June 30, 2011

Service Efforts and Accomplishments (Unaudited)

A brief description of the functions and activities of the Commission are presented in the Commission Functions and Planning Program. This section of the report presents to the reader some basic data (financial and non-financial) related to the accomplishment of those functions.

The Commission governs development within the District, a 560-acre area bordered by Ashland Avenue, the Eisenhower Expressway, Oakley Boulevard, and 16th Street on the Near West Side of Chicago. The District is one of the nation's largest urban Medical Districts and includes Rush University Medical Center, John H. Stroger Jr. Hospital of Cook County, University of Illinois Medical Center, Jesse Brown VA Medical Center, and 40 other healthcare institutions. The Commission nurtures or coordinates growth among all institutions within the Medical District. The District is home to the Illinois Forensic Center (Crime Lab), and the American Red Cross of Greater Chicago Headquarters. The District Security Group and District Member Council organize activities and projects to improve the safe environment and coordinate signage and beautification. The District or its institutions are actively involved in many bio-terrorism, public safety and disaster response and preparedness projects and activities. The regional FBI headquarters (opened in Spring 2006) is integral to such efforts.

The Chicago Technology Park (Park) is a 56-acre development located within the boundaries of the District where facilities are available for technology commercialization and research. Its primary objective is to grow and attract startup technology based firms in Illinois with an emphasis on biotechnology. There are currently over 30 biotech or technology based firms in the Park that has their origins from District's major facilities, including a 56,000 square-foot state-run incubator, the 20,000 square-foot Enterprise Center I, the 15,000 square-foot Enterprise Center II and the 70,000 square-foot Tech 2000 building as well as other research, treatment, and emergency communication facilities.

It is the Commission's goal to position Illinois as a leader in biotechnology and medical research commercialization. District Development focuses on continued economic growth and development of the District through land acquisition and assembly of lots into larger parcels using voluntary agreements, delinquent tax sales, condemnation and intergovernmental transfers. Suitable land sites are leased for expansion to member institutions and new qualified users. As the land acquisition program is ongoing, the Commission meets regularly with developers and the City of Chicago to plan and coordinate redevelopment activities.