STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY

FINANCIAL AUDIT
For the Year Ended June 30, 2014

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, 2014

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

AGENCY OFFICIALS

Chairman of the Board of Directors	Mr. William A. Brandt, Jr.
Executive Director	Mr. Christopher B. Meister
Chief Financial Officer	Ms. Melinda M. Gildart (03/27/14 - current)
Chief Financial Officer	Vacant (03/01/14 - 03/26/14)
Chief Financial Officer (Acting)	Mr. Scott Bailey (01/14/14 - 02/28/14)
Chief Financial Officer	Mr. Dennis Anosike (07/24/13 - 01/13/14)
Chief Financial Officer (Acting)	Mr. Scott Bailey (07/01/13 - 07/23/13)
Controller^	Ms. Ximena Granda (08/19/13 - current)
General Counsel (Acting)	Ms. Pamela A. Lenane

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

Member	Mr. William A. Brandt, Jr.
Member	Mr. David Vaught (12/13/13 - current)
	Vacant (12/12/13)
	Dr. William Barclay (07/01/12 - 12/11/13)
Member	Mr. Terrence M. O'Brien
Member	Mr. Michael W. Goetz
Member	Mr. Bradley A. Zeller
Member	Mr. Roger Poole
Member	Mr. Edward Leonard, Sr.
Member	Mr. Norman M. Gold
Member	Mr. James J. Fuentes
Member	Mr. Barrett F. Pedersen
Member	Ms. Gila J. Bronner
Member	Ms. Heather D. Parish
Member	Ms. Carmen Lonstein
Member	Mr. Lerry Knox
Member	Mr. Mordecai Tessler

AGENCY OFFICIALS (continued)

Agency offices are located at:

Chicago Office
160 North LaSalle Street, Suite C-800
Chicago, Illinois 60601

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

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

^This position was created when the occupant returned to the employment of the Authority.

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 unmodified opinion on the Authority's basic financial statements.

SUMMARY OF FINDINGS

The auditors identified two matters involving the Authority's internal control over financial reporting that they considered to be a material weakness and a significant deficiency. The material weakness is described in the accompanying Schedule of Findings on pages 77-81 of this report as item 2014-001, *Inaccurate Major Fund Financial Statements for the Authority's Fire Truck Revolving Loan Fund and Ambulance Revolving Loan Fund*. The significant deficiency is described in the accompanying Schedule of Findings on pages 82-83 of this report as item 2014-002, *Failure to Write-Off Uncollectible Balances from Non-Conduit Debt.*

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

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with the Authority personnel at an exit conference on December 22, 2014. Attending were:

<u>Illinois Finance Authority</u>

Christopher Meister, Executive Director
Melinda Gildart, Chief Financial Officer
Ximena Granda, Controller
Pamela Lanane, General Counsel (Acting)

<u>Illinois Finance Authority's Board of Directors</u>

Gila Bronner, Chairwoman of the Audit Committee

<u>Office of the Auditor General</u>

Daniel J. Nugent, CPA, Audit Manager

<u>E.C. Ortiz & Co., LLP</u>

Marites Sy, Partner
Emily Causon, Manager

The responses to the recommendations were provided by Ms. Ximena Granda, Controller, in a letter dated December 24, 2014.

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

Independent Auditors' Report

Honorable William G. Holland
Auditor General
State of Illinois

and

Board of Directors
Illinois Finance Authority

Report on the Financial Statements

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, a component unit of the State of Illinois, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the State of Illinois, Illinois Finance Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control

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relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 for the State of Illinois, Illinois Finance Authority, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 17 to the financial statements, in Fiscal Year 2014, the State of Illinois, Illinois Finance Authority adopted new accounting guidance within Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 8-25 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.

Other Information

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 Position – Nonmajor Funds, Combining Statement of Revenues, Expenses, and Changes in Fund Net Position – Nonmajor Funds, and Combining Statement of Cash Flows – Nonmajor Funds are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Combining Statement of Net Position – Nonmajor Funds, Combining Statement of Revenues, Expenses, and Changes in Fund Net Position – Nonmajor Funds, and Combining Statement of Cash Flows – Nonmajor Funds are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has 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 Position – Nonmajor Funds, Combining Statement of Revenues, Expenses, and Changes in Fund Net Position – Nonmajor Funds, and Combining Statement of Cash Flows – Nonmajor Funds are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 24, 2014 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Illinois, Illinois Finance Authority's internal control over financial reporting and compliance.

E. C. Ortiz & Co. LLP

Chicago, Illinois
December 24, 2014

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
(A Component Unit of the State of Illinois)
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2014

Our discussion and analysis of the financial performance of the Illinois Finance Authority, a component unit of the State of Illinois, provides an overview of financial activities for the fiscal year ended June 30, 2014. Because the intent of this management discussion and analysis is to look at financial performance as a whole, readers should also review the financial statements and notes to the basic financial statements to further enhance their understanding of the Authority's financial performance.

Financial Highlights

On the basic financial statements, statement of net position, liabilities totaled $269.3 million, while assets and deferred outflows equaled $386.2 million, with increases of $29.6 million and $50.1 million from FY2013, respectively. The overall increase in total assets was driven by higher cash balances from bond issuances and the transfer of Ambulance and Fire Truck funds from the State Treasurer. Current assets specifically, were $48.3 million higher than last year. The increase in total liabilities also directly resulted from new bond issuances. Current liabilities, specifically, were $57.1 million higher than FY2013 primarily due to the current amount due to the State of Illinois for the Clean Water Initiative bonds.

On the statement of revenues, expenses and net position, total revenues were $37.6 million or 132.2% higher and total expenses were $16.1 million, or 17.4% higher than the previous fiscal year. Nonoperating revenues of $28.1 million included the transfer and receipt of Fire Truck and Ambulance funds of $8.3 million and the release of the obligation to the State of Illinois per Public Act 97-0901 of $17.5 million; both were major drivers in the overall increase in net position. Operating expenses were greater than FY2013 by only $44 thousand, which included activities such as the loss on defeasance of debt. Nonoperating expenses included the transfer of unused Department of Commerce and Economic Opportunity (DCEO) grant funds back to the State of Illinois. This transaction was a major driver in the overall $2.4 million dollar increase in total expenses.

Overall net position was $21.5 million or 22.5% higher than FY2013 due to overall higher revenues and the implementation of GASB Statement No. 65, which resulted in an increase of prior year's net position of $31 thousand.

The Authority is reporting four new major funds for FY2014, the Other State of Illinois Debt Fund, Fire Truck Revolving Loan Fund, Ambulance Revolving Loan Fund and the Illinois Energy Fund. The Other State of Illinois Debt Fund's activities were previously reported in the Bond Fund. All other new major funds were previously reported as nonmajor funds on the Authority's financial statements. New for FY2014 is also the presentation of the Metro East Police District Commission as a fiduciary fund.

During Fiscal Year 2014, the Authority issued $141 million revenue bonds on behalf of the Clean Water Initiative for the State of Illinois, Environmental Protection Agency's Water Revolving Fund.

Overview of the financial statements

The basic proprietary fund financial statements including the Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, Statement of Cash Flows and Statement of Fiduciary Net Position - Agency Fund provide both short-term and long-term information about the Authority's financial status. The accompanying notes to the financial statements provide essential information that is not disclosed on the face of the financial statements, and as such, are an integral part of the basic financial statements.

Proprietary funds

These funds are used to show activities that operate more like those of commercial enterprises. Because these funds charge user fees for services provided to outside customers, including local governments, they are known as enterprise funds. Proprietary funds use the accrual basis of accounting and provide both long and short-term financial information. The proprietary fund financial statements provide separate information for the General Operating Fund, Bond Fund, Other State of Illinois Debt Fund, Fire Truck Revolving Loan Fund, Ambulance Revolving Loan Fund, and Illinois Energy Fund are included on:

- The **Statement of Net Position** presents the financial position of the Authority as of June 30, 2014, and includes all assets, deferred outflows of resources, liabilities and deferred inflows of resources of the Authority.

- The **Statement of Revenues, Expenses and Changes in Net Position** 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.

Fiduciary funds

Fiduciary funds are used primarily to account for resources held for the benefit of parties outside of the primary government. The Authority is the agent, or fiduciary, for specific transactions attributable to the Metro East Police District Commission (MEPDC). The Authority uses a fiduciary fund to account for transactions for assets held by the Authority as agent for MEPDC.

For the transactions authorized by the Metro East Police District Act (70 ILCS 1750/15) and the Illinois Finance Authority Act (20 ILCS 3501/825-115), the Authority is responsible for ensuring that the assets reported in these funds are used for their intended purposes. Fiduciary funds are reported in a separate statement of fiduciary net position with the fund accounting being much like that used for proprietary funds.

Notes to the basic financial statements

The notes provide additional information that is essential for a full understanding of data provided in the Authority's financial statements. The notes to the basic proprietary fund financial statements can be found immediately following the fiduciary fund basic financial statements.

Additional Information

The combining statements, which include nonmajor funds, are presented immediately following the notes to the basic financial statements.

Condensed Statement of Net Position
(Amounts in Thousands)

	Business-type Activities			
	2014	**2013***	**Difference ($)**	**Change (%)**
Current assets	$ 196,164	$ 147,857	$ 48,307	32.7%
Capital assets, net	119	117	2	1.7%
Noncurrent assets	188,980	187,235	1,745	0.9%
Total assets	385,263	335,209	50,054	14.9%
Total deferred outflow of resources	971	-	971	100.0%
Current liabilities	97,632	40,534	57,098	140.9%
Noncurrent liabilities	171,656	199,180	(27,524)	(13.8%)
Total liabilities	269,288	239,714	29,574	12.3%
Net investment in capital assets	119	117	2	1.7%
Restricted	48,224	26,723	21,501	80.5%
Unrestricted	68,603	68,655	(52)	(0.1%)
Total net position, as restated	$ 116,946	$ 95,495	$ 21,451	22.5%

** Restated for GASB Statement No. 65 implementation (see Notes 1 and 17)*

Current assets of $196.2 million increased $48.3 million or 32.7% primarily due to increased cash on hand from the current portion of state match (Clean Water Initiative) loan funds held on behalf of the State of Illinois and the repayment of outstanding loans from borrowers.

Capital assets, net of depreciation increased $2 thousand or 1.7% due to several projects still in process and not yet completed as of year-end.

Non-current assets of $189.0 million increased $1.7 million or 0.9%**.**

Current liabilities of $97.6 million increased $57.1 million or 140.9% primarily due to bonds issued for the Clean Water Initiative with the current portion of $54 million due to the State of Illinois. Included in the net change was the release of the current portion of the obligation to the State of Illinois, for the Fire Truck and Ambulance Funds, per Public Act 97-0901, of $1.5 million.

Non-current liabilities decreased $27.5 million or 13.8%, due to the defeasance of bonds for the Illinois Rural Bond Bank Program, the State of Illinois, Environmental Protection Agency 2002 and 2004 bonds, and the Northern Illinois University 1999 bond; and the release of the long-term portion of the obligation to the State of Illinois, for the Fire Truck and Ambulance Funds, per Public Act 97-0901, of $15.9 million.

Net position may serve, over a period of time, as a useful indicator of the Authority's financial position. As of June 30, 2014, total net position was $116.9 million, an increase of $21.5 million or 22.5% from the restated balance of $95.5 million in FY2013. Of this amount, $119 thousand represents the Authority's net investment in capital assets. Restricted net position of $48.2 million is reported separately to present legal constraints from debt covenants, grantors and enabling legislation. The $68.6 million of unrestricted net position represents the excess the Authority would experience if it had to liquidate all of its non-capital liabilities as of June 30, 2014.

The following table presents the changes in net position from Fiscal Year 2013 to 2014:

Changes in Net Position
(Amounts in Thousands)

	Business-type Activities			
	2014	**2013***	**Difference ($)**	**Change (%)**
Revenues:				
Administrative service and closing fees	$ 2,757	$ 3,851	$ (1,094)	(28.4%)
Annual fees	433	409	24	5.9%
Application fees	46	53	(7)	(13.2%)
Miscellaneous fees	337	63	274	434.9%
Interest income - loans	5,944	8,072	(2,128)	(26.4%)
Transfer of funds and interest in program from the State of Illinois	25,806	-	25,806	100.0%
Grant income	-	841	(841)	(100.0%)
Bad debt recoveries and other	52	375	(323)	(86.1%)
Interest and investment income	2,209	2,523	(314)	(12.4%)
Total revenues	37,584	16,187	21,397	132.2%
Expenses:				
Employee related expenses	1,712	1,790	(78)	(4.4%)
Professional services	1,658	1,351	307	22.7%
Occupancy costs	316	319	(3)	(0.9%)
General and administrative	325	318	7	2.2%
Depreciation and amortization	46	48	(2)	(4.2%)
Interest expense	7,821	9,921	(2,100)	(21.2%)
Loss on defeasance of debt	1,913	-	1,913	100.0%
Transfer of unused grant funds to the State of Illinois	2,342	-	2,342	100.0%
Total expenses	16,133	13,747	2,386	17.4%
Change in net position	21,451	2,440	19,011	779.1%
Net position - beginning, as restated	95,495	93,055	2,440	2.6%
Net position - ending	$ 116,946	$ 95,495	$ 21,451	22.5%

** Restated for GASB Statement No. 65 implementation (see Notes 1 and 17)*

Operating revenues such as administrative and closing fees saw decreases of $1.1 million or 28.4%, while other miscellaneous fees were $274 thousand higher than FY2013. Nonoperating revenues included of $25.8 million recorded for the transfer and receipt of Ambulance and Fire Truck Revolving funds and the release of the obligation to the State of Illinois per Public Act 97-0901. This was a major factor in the overall increase in revenues. Expenses were higher in FY2014 by $2.4 million due to the loss on defeasance of the Illinois Rural Bond Bank bonds of $1.9 million and the transfer of unused Department of Commerce and Economic Opportunity funds of $2.3 million back to the State of Illinois. In accordance with GASB Statement No. 62, the loss on defeasance is expensed in the current period.

Capital Assets

The Authority has established a policy of capitalizing assets as described in Note 1 to the financial statements. The Authority's investment in capital assets, net of accumulated depreciation, for business-type activities as of June 30, 2014 was $119 thousand.

Additional information about capital assets can be found in Note 9 to the financial statements.

	2014	2013	Difference ($)	Change (%)
Furniture and equipment	$ 222	$ 223	$ (1)	(0.4%)
Computers	128	124	4	3.2%
Software	284	240	44	18.3%
Total capital assets	634	587	47	8.0%
Less: accumulated depreciation	(515)	(470)	(45)	9.6%
Total capital assets, net	$ 119	$ 117	$ 2	1.7%

Long Term Debt Obligations

Long-term debt is incurred only to raise the capital necessary 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 majority of the Authority's debt is classified as conduit debt. 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. 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. 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 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 34 separate conduit debt issues in Fiscal Year 2014 with an aggregate principal amount of $1.95 billion.

The Authority also issues revenue bonds for the purpose of providing loans to other agencies and component units of the State of Illinois. Although similar to conduit bonds, since these bonds are issued for the benefit of third parties that are part of the Authority's financial reporting entity, they do not meet the definition of conduit debt under Generally Accepted Accounting Principles and thus are reported as liabilities on the Authority's basic financial statements. As of June 30, 2014, the aggregate amount of intra-state debt outstanding is $185.5 million.

The Illinois Finance Authority Act also allows the Authority to issue revenue bonds with the State's moral obligation attached. This pledge states that in the event that money will not be available for the payment of principal and interest of these obligations, the Governor is to request the shortfall amount be appropriated by the General Assembly. The Authority did not issue any revenue bond with the State's moral obligation in Fiscal Year 2014. As of June 30, 2014, the aggregate amount of revenue bonds with the State's moral obligation attached is $37.6 million.

In addition to its revenue bonds, the Authority also has outstanding loans with the U.S. Department of Agriculture for $428 thousand. These loans were incurred to provide the funding for the Authority's Rural Development Loan Program.

Additional information about long-term debt can be found in Note 1 and Note 10 to the financial statements.

Financial Analysis of the Authority's Funds

The Authority has six major enterprise funds.

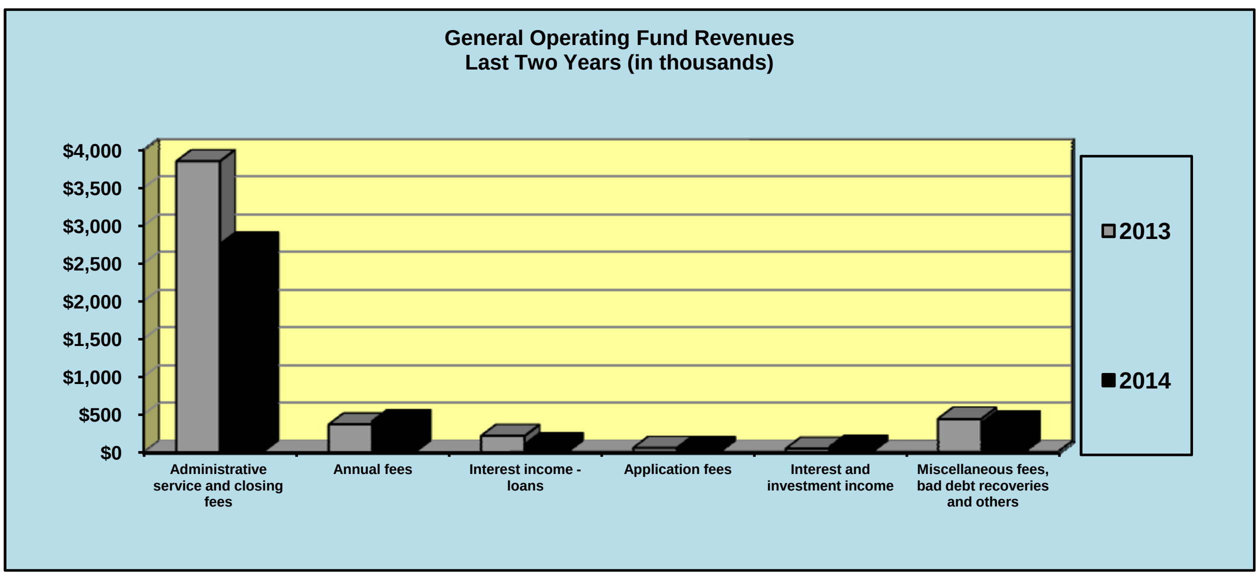
General Operating Fund - This fund is the primary operating fund of the Authority, which receives all revenues from program applications. All administrative expenses for establishing and monitoring the Authority's programs are paid out of this fund. In Fiscal Year 2014, administrative service and closing fees accounted for 73.3% of total revenues in the fund, but were lower than the prior year by $1.1 million, or 28.4%. The reason for the decrease is the reduced number of closings and/or bonds issued. Interest income on loans also decreased by $108 thousand, or 51.4 %, as a result of the Authority's lower number of outstanding loans. Interest and investment income were higher due to the Authority's policy decision to shift available cash to investment managers, who, in turn, generated higher returns. Net investment income in this fund totaled $63 thousand which is an increase of $22 thousand or 53.7% from prior year. Miscellaneous fees totaled $337 thousand in the current year versus $62 thousand in FY2013. Various settlements and the receipt of prior year fees were reasons for the $275 thousand or 443.5% increase. Overall, revenues in the fund totaled $3.8 million, which was $1.2 million lower than FY2013. But with spending held to just under $3.7 million, the General Operating Fund realized an increase in net position of $106 thousand.

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
(A Component Unit of the State of Illinois)
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2014

Revenues
(Amounts in Thousands)

	2014	2013*	2014 % of Total	Increase/ (Decrease) from 2013 ($)	Increase/ (Decrease) from 2013 (%)
Administrative service and closing fees	$ 2,757	$ 3,851	73.3%	$ (1,094)	(28.4%)
Annual fees	406	362	10.8%	44	12.2%
Application fees	46	53	1.2%	(7)	(13.2%)
Miscellaneous fees	337	62	9.0%	275	443.5%
Interest income - loans	102	210	2.7%	(108)	(51.4%)
Bad debt recoveries and other	51	375	1.3%	(324)	(86.4%)
Interest and investment income	63	41	1.7%	22	53.7%
Total revenues	$ 3,762	$ 4,954	100.0%	$ (1,192)	(24.1%)

** Restated for GASB Statement No. 65 implementation (see Notes 1 and 17)*

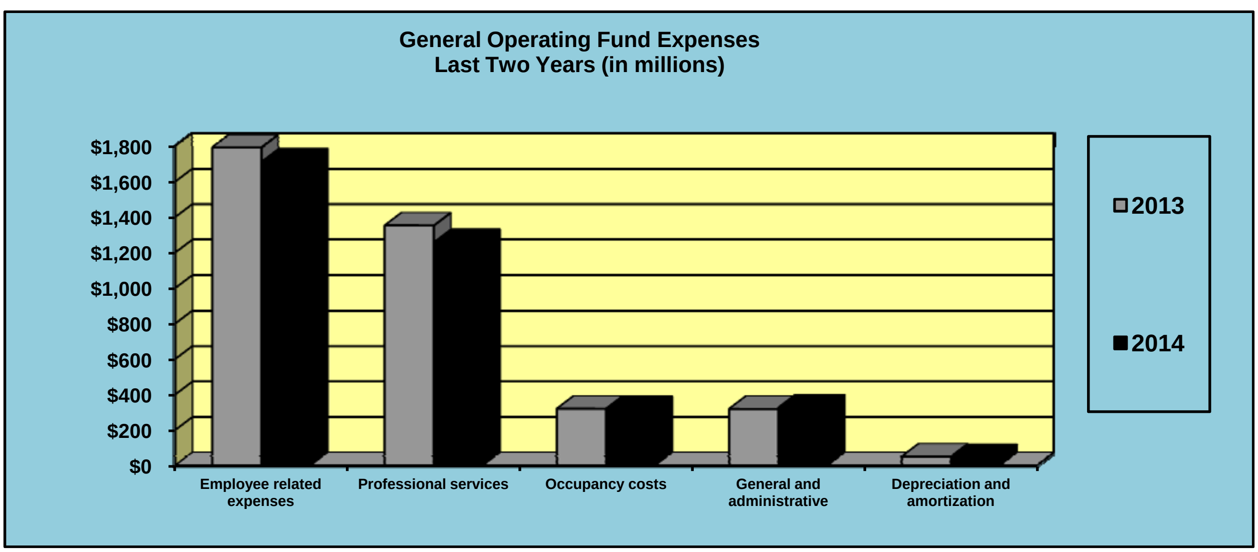


Employee related expenses were down $78 thousand or 4.4% from FY2013 due to lower labor costs and professional services were lower by $93 thousand or 6.9% due to reduced spending on outside contractors. Occupancy costs also fell by $3 thousand or 0.9% and general and administrative expenses were $7 thousand or 2.2% higher due to increased insurance costs. Overall, spending in the General Operating Fund was reduced from FY2013 by $169 thousand or 4.4%, which minimized declining closing fees.

Expenses
(Amounts in Thousands)

	2014	2013*	2014 % of Total	Increase/ (Decrease) from 2013 ($)	Increase/ (Decrease) from 2013 (%)
Employee related expenses	$ 1,712	$ 1,790	46.8%	$ (78)	(4.4%)
Professional services	1,258	1,351	34.4%	(93)	(6.9%)
Occupancy costs	316	319	8.6%	(3)	(0.9%)
General and administrative	325	318	8.9%	7	2.2%
Depreciation and amortization	46	48	1.3%	(2)	(4.2%)
Total expenses	$ 3,657	$ 3,826	100.0%	$ (169)	(4.4%)

** Restated for GASB Statement No. 65 implementation (see Notes 1 and 17)*



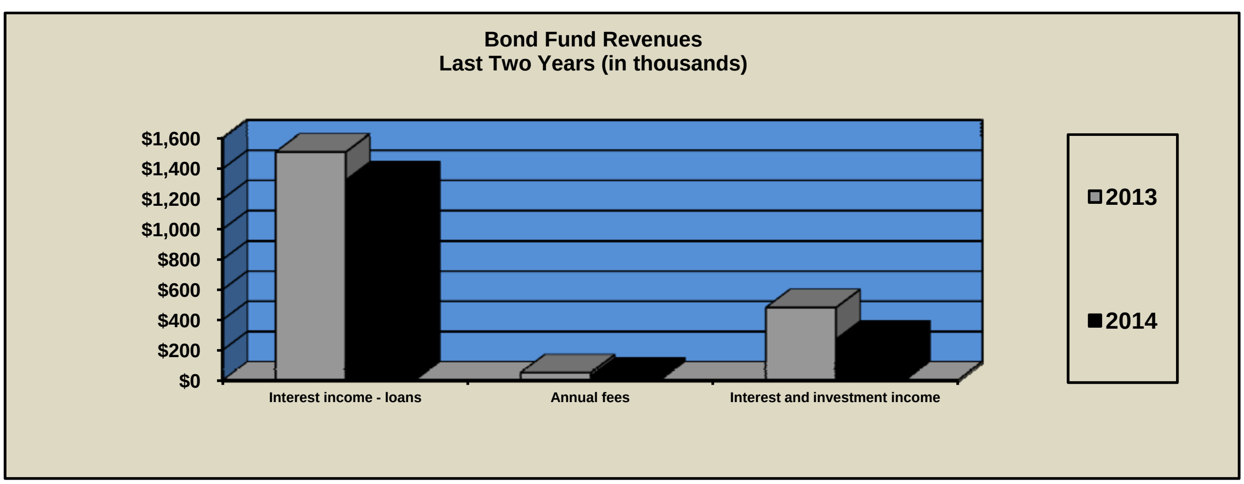
<u>Bond Fund</u> - The purpose of the bond fund is to account for debt proceeds, principal and interest payments, purchase participating institutions securities and other debt related activity specific to the Illinois Finance Authority. The fund also collects interest and principal payments from the

participating institutions and makes payments and interest on the outstanding bonds payable. In FY2014, bonds from the Illinois Rural Bond Bank Program were defeased, and the remaining notes receivables (from the local governments) and respective equity, were transferred to the General Operating Fund. These funds are now unrestricted and available to the Authority for any use. Annual fees totaled $26 thousand versus $47 thousand from FY2013, a decrease of $21 thousand or 44.7%. The reason for the decrease is a result of the Authority discontinuing the billing of annual fees for the remaining local government loans following the Illinois Rural Bond Bank's defeasance.

Interest income on loans accounted for 81.7% of the revenues in the bond fund and the total amount received in FY2014 was $1.3 million. This presents a 12.2% or $184 thousand dollar reduction from prior year. Interest and investment income was also lower in the current year as revenues totaled $270 thousand, which is 43.5% or $208 thousand lower than FY2013. Overall, revenues in the bond fund were $413 thousand or 20.3% lower than FY2013. The ending net position for this fund is zero.

Revenues
(Amounts in Thousands)

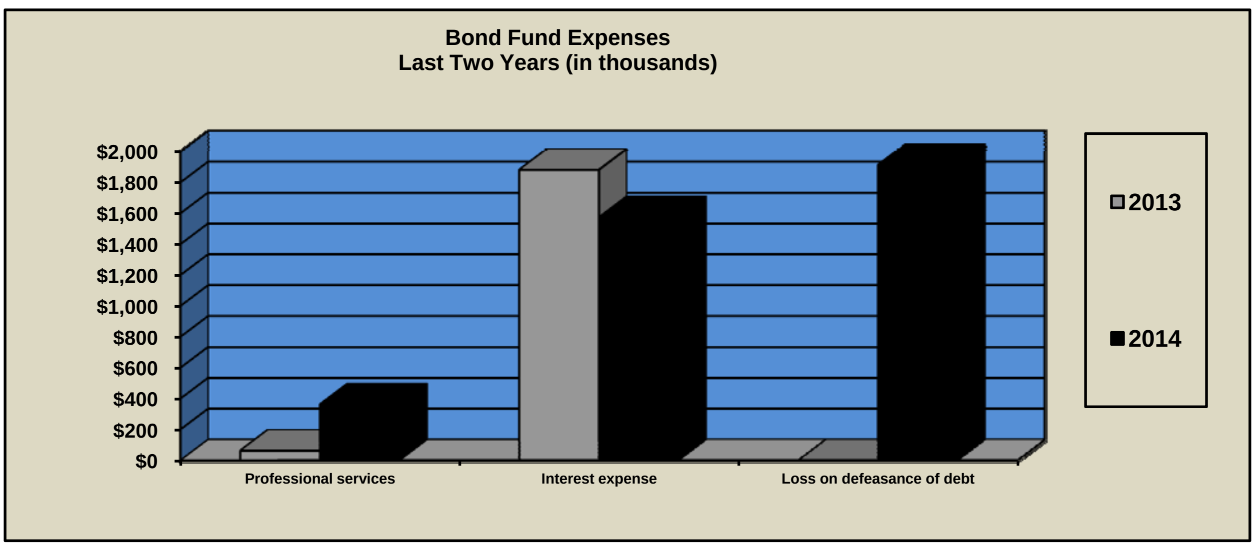
	2014	2013	2014 % of Total	Increase/ (Decrease) from 2013 ($)	Increase/ (Decrease) from 2013 (%)
Annual fees	$ 26	$ 47	1.6%	$ (21)	(44.7%)
Interest income - loans	1,323	1,507	81.7%	(184)	(12.2%)
Interest and investment income	270	478	16.7%	(208)	(43.5%)
Total revenues	$ 1,619	$ 2,032	100.0%	$ (413)	(20.3%)



Professional services expenses in the bond fund totaled $362 thousand, which is an increase of $299 thousand from FY2013. The increase is due to legal, financial advisory, and accounting fees related to the defeasance of the Illinois Rural Bond Bank bonds. The loss on bond defeasance resulting from this transaction of $1.9 million was expensed in the current year. Interest expense of $1.6 million, which makes up 40.9% of the total bond fund expenses in FY2014, decreased $306 thousand or 16.3% from the prior year.

Expenses
(Amounts in Thousands)

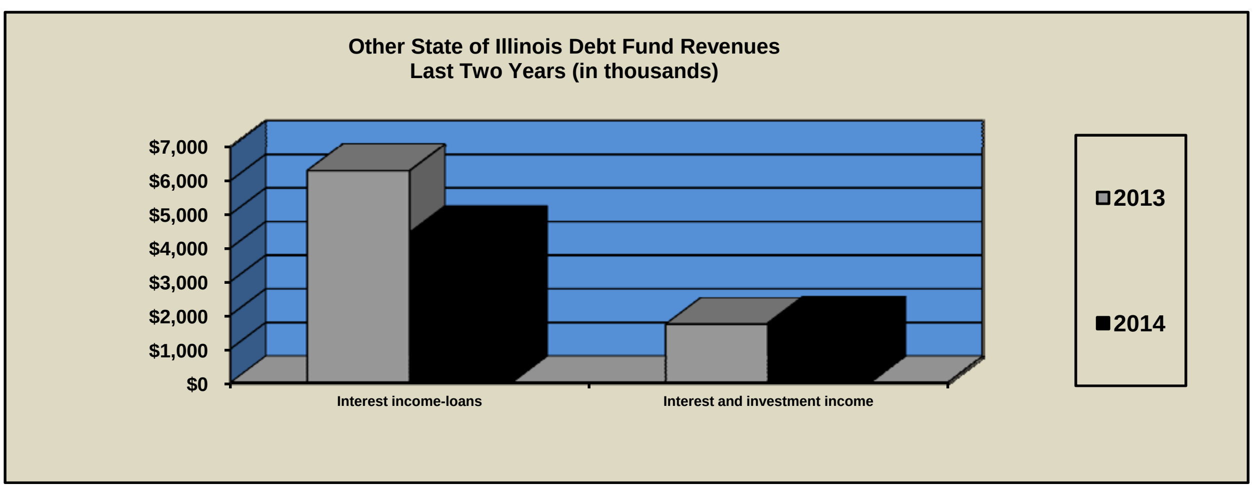
	2014	2013	2014 % of Total	Increase/ (Decrease) from 2013 ($)	Increase/ (Decrease) from 2013 (%)
Professional services	$ 362	$ 63	9.4%	$ 299	474.6%
Interest expense	1,576	1,882	40.9%	(306)	(16.3%)
Loss on defeasance of debt	1,913	-	49.7%	1,913	100.0%
Total expenses	$ 3,851	$ 1,945	100.0%	$ 1,906	98.0%



Other State of Illinois Debt Fund - The purpose of this fund is to account for bond proceeds, principal and interest payments, purchase participating institutions securities and other debt related activity for other entities within the State of Illinois' reporting entity. These agencies include the State of Illinois, Environmental Protection Agency, Illinois Medical District Commission, Northern Illinois University, and Northern Illinois University Foundation. The fund also collects interest and principal payments from the participating institutions and makes payments and interest on the bonds payable. All activity in this fund is of a conduit nature on behalf of the other State agencies and/or units. Interest income from loans totaled $4.5 million versus $6.3 million from FY2013, a decrease of $1.8 million or 29.1%. The reason for the decrease is due to the payoff of outstanding loans from the Northern Illinois University for bonds issued in 1999. Interest and investment income was higher for this fund as net investment revenues totaled $1.7 million, which is 2.2% or $39 thousand higher than FY2013. Overall, revenues in the bond fund were $1.8 million or 22.3% lower than FY2013. The ending net position for this fund is zero.

Revenues
(Amounts in Thousands)

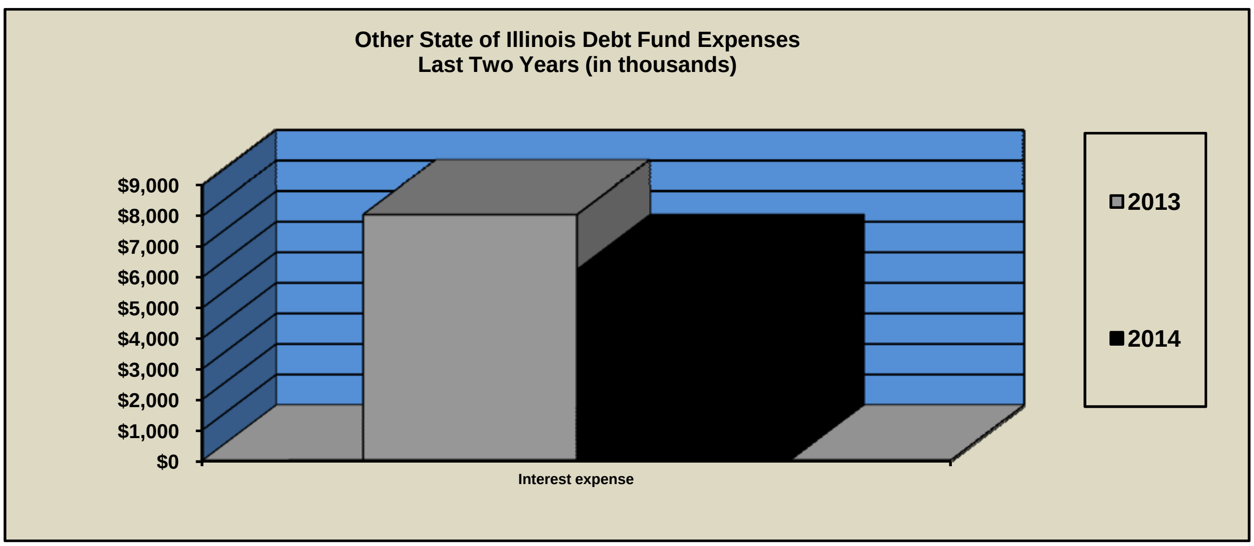
	2014	2013	2014 % of Total	Increase/ (Decrease) from 2013 ($)	Increase/ (Decrease) from 2013 (%)
Interest income-loans	$ 4,467	$ 6,300	71.6%	$ (1,833)	(29.1%)
Interest and investment income	1,773	1,734	28.4%	39	2.2%
Total revenues	$ 6,240	$ 8,034	100.0%	$ (1,794)	(22.3%)



Interest expense in the fund totaled $6.2 million, which is a decrease of $1.8 million from FY2013. The decrease is due to the reduction in the interest rate after the December 2013 refunding of the State of Illinois, Environmental Protection Agency's 2002 and 2004 bonds. Interest expense is the only outflow shown in this fund on the Authority's financial statements. Other activity specifically related to the other State of Illinois agencies and units are reported on the financial statements of the primary government and/or the unit itself.

Expenses
(Amounts in Thousands)

	2014	2013	2014 % of Total	Increase/ (Decrease) from 2013 ($)	Increase/ (Decrease) from 2013 (%)
Interest expense	$ 6,240	$ 8,034	100.0%	$ (1,794)	(22.3%)

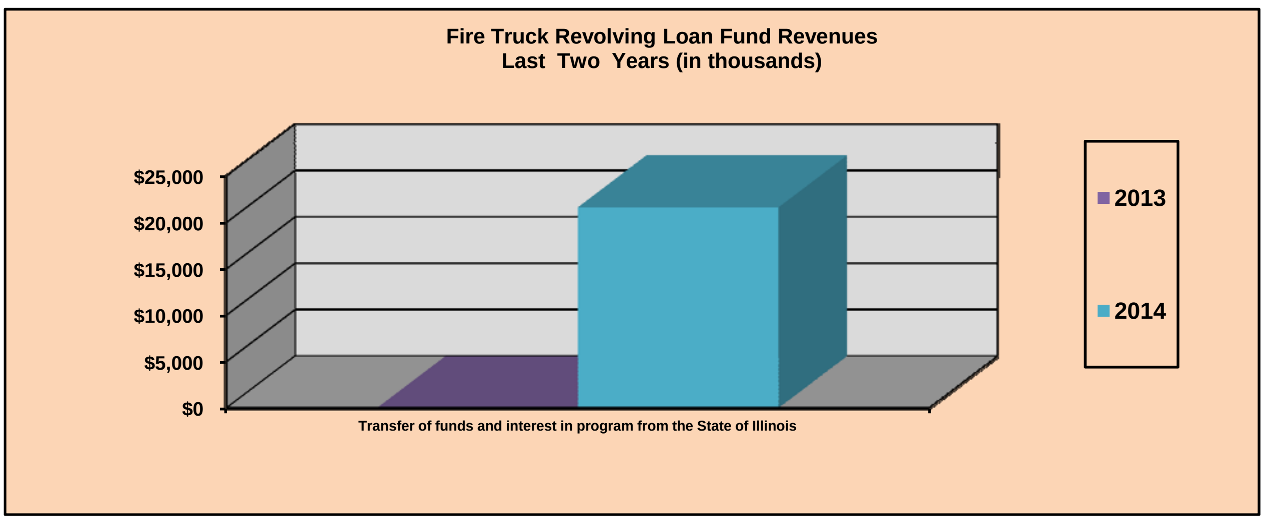


Fire Truck Revolving Loan Fund - The purpose of the Fire Truck Revolving Loan Fund is to account for activity related to the application, issuance and management of loans made to local government entities to purchase fire trucks. In FY2014, program funds of $4.5 million, previously held by the Treasurer of the State of Illinois, were transferred to the custody of the Authority. In addition, the release of the obligation to the State of Illinois, per Public Act 97-0901, of $17.1 million, was recorded in this fund. As of June 30, 2014, the fund contains net position of $21.6 million, which is restricted for public safety loans. In prior years, revenue and expense activity of this fund was reported on the financial statements of the State of Illinois.

Revenues

(Amounts in Thousands)

	2014	2013	2014 % of Total	Increase/ (Decrease) from 2013 ($)	Increase/ (Decrease) from 2013 (%)
Transfer of funds and interest in program from the State of Illinois	$ 21,620	$ -	100.0%	$ 21,620	100.0%

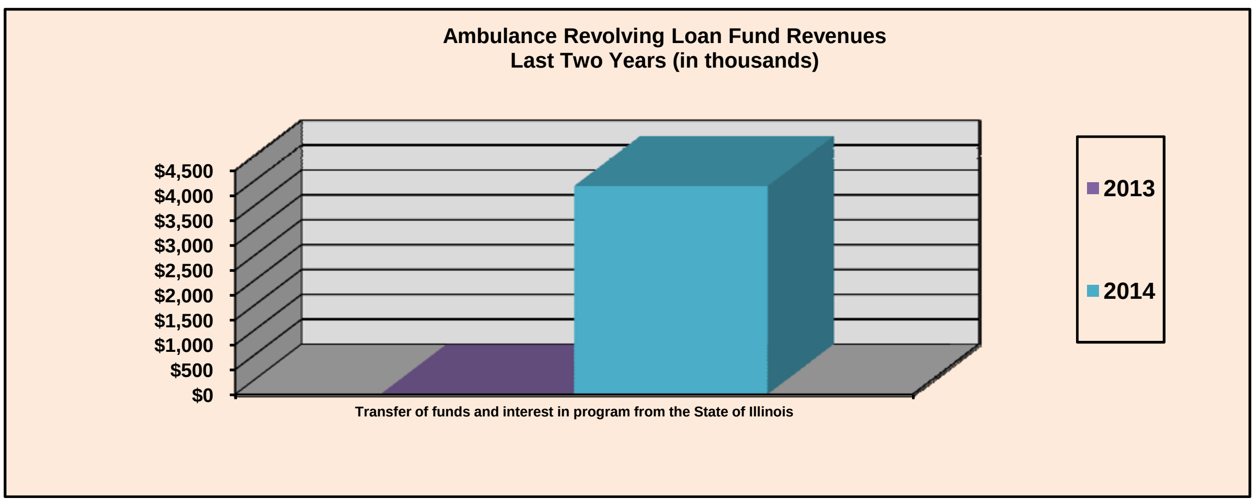


STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
(A Component Unit of the State of Illinois)
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2014

Ambulance Revolving Loan Fund - The purpose of the ambulance revolving loan fund is to account for activity related to the application, issuance and management of loans made to local government and non-profit entities to purchase ambulances. In FY2014, program funds of $3.8 million, previously held by the Treasurer of the State of Illinois, were transferred to the custody of the Authority. In addition, the release of the obligation to the State of Illinois, per Public Act 97-0901, of $416 thousand, was recorded in this fund. As of June 30, 2014, the fund contains net position of $4.2 million, which is restricted for public safety loans. In prior years, revenue and expense activity of this fund was reported on the financial statements of the State of Illinois.

Revenues
(Amounts in Thousands)

	2014	2013	2014 % of Total	Increase/ (Decrease) from 2013 ($)	Increase/ (Decrease) from 2013 (%)
Transfer of funds and interest in program from the State of Illinois	$ 4,186	$ -	100.0%	$ 4,186	100.0%

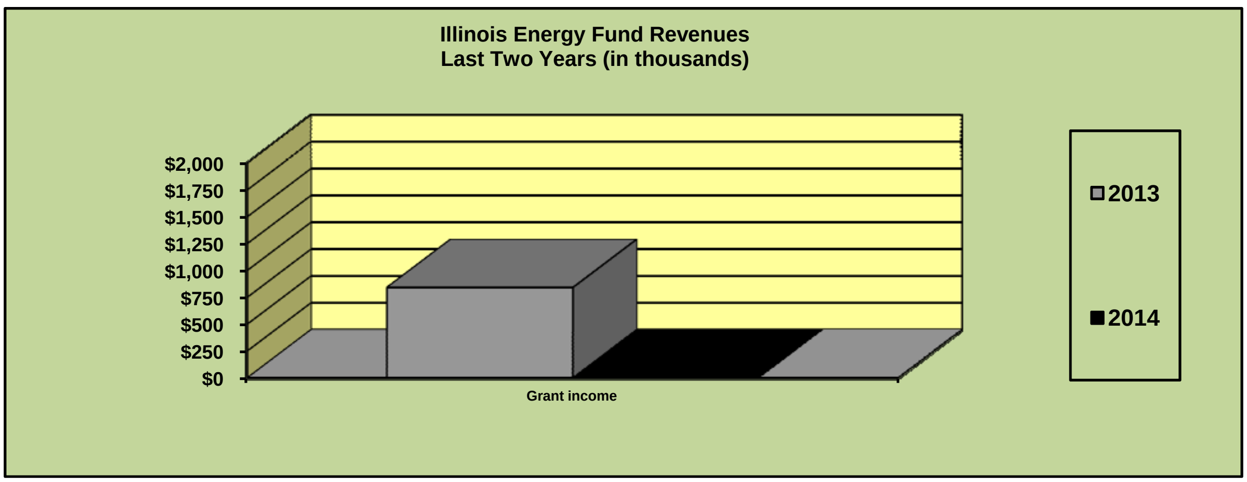


STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
(A Component Unit of the State of Illinois)
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2014

Illinois Energy Fund - The purpose of the fund is to account for the activity of the U.S. Department of Energy's Revolving Loan Fund. The U.S. Department of Energy's Revolving Loan program was established to finance energy efficiency and renewable projects throughout the State.

Revenues
(Amounts in Thousands)

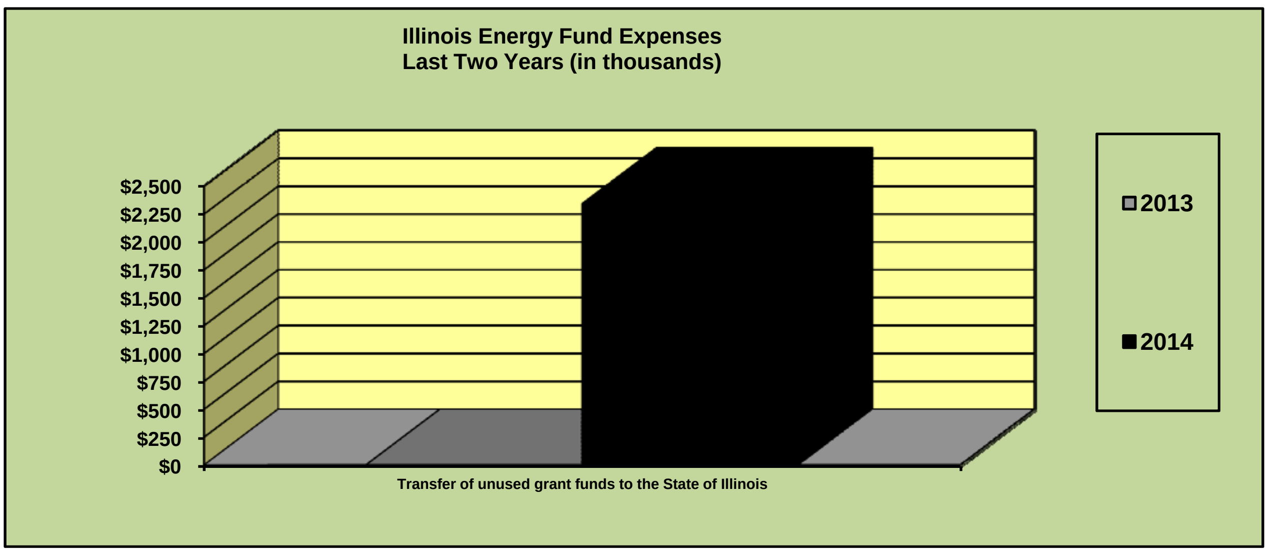
	2014	2013	2014 % of Total	Increase/ (Decrease) from 2013 ($)	Increase/ (Decrease) from 2013 (%)
Grant income	$ -	$ 841	0.0%	$ (841)	(100.0%)



Expenses in the Illinois Energy Fund include a $2.3 million transfer of these funds back to the State of Illinois, Department of Commerce and Economic Opportunity. The program was discontinued as of April 2014 when the funds were returned.

Expenses
(Amounts in Thousands)

	2014	2013	2014 % of Total	Increase/ (Decrease) from 2013 ($)	Increase/ (Decrease) from 2013 (%)
Transfer of unused grant funds to the State of Illinois	$ 2,342	$ -	100.0%	$ 2,342	100.0%



Economic Factors, Decisions and Conditions

<u>All Funds</u> - The Authority receives revenues from the management and closing of financial bond issues and other transactions; evaluating, documenting, and closing loan applications; bond and loan application fees; annual maintenance fees for ongoing agreements; interest on loans; and, investment income. Primarily, due to the reduced spread between taxable and tax-exempt interest rates, the annual number of bond transactions closed and related closing fee revenues have declined over the last few years, but the Authority has responded with offsetting reductions in spending and new revenue streams. As a result, applications fees have increased, as have annual fees generated from the Authority's new and ongoing agreements with local governments, as well as increased conduit local government revenue bond issuance volume (including conduit school district and community college district bond issues). Overall, the

Authority reported an ending FY2014 net position of nearly $116.9 million, an increase of nearly $21.5 million from Fiscal Year 2013. In FY2014, the Authority defeased its Illinois Rural Bond Bank bonds which resulted in net transfers of prior year equity from the Bond Fund and IRBB Special Reserve Fund to the General Operating Fund of $2.6 million. In addition, the transfer and receipt of the funds and the release of the obligation to the State of Illinois, per Public Act 97-0901, for Fire Truck Revolving Loan Fund and the Ambulance Revolving Loan Fund, of $25.8 million was recorded.

Nonmajor Funds - As of June 30, 2014, the Authority's nonmajor funds in aggregate reported unrestricted net position of $16.8 million and restricted net position of $22.4 million. The net position restricted in the nonmajor funds is for agricultural and rural development loans, renewable energy development, and credit enhancement.

Notes to Basic Financial Statements

The Notes to Basic Financial Statements follow the statements in the report and complement the financial statements by describing qualifying factors and changes throughout the fiscal year.

Requests for Information

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the funds it receives. Additional details may be requested by mail at the following address:

Illinois Finance Authority
Department of Finance
160 N. LaSalle Street
Suite C-800
Chicago, Illinois, 60601

Or visit our website at: http://www.il-fa.com/public-access/financial-reports/2014 for a complete copy of this report and other financial information.

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
(A Component Unit of the State of Illinois)
Statement of Net Position
June 30, 2014

	GENERAL OPERATING FUND	BOND FUND	OTHER STATE OF ILLINOIS DEBT FUND	FIRE TRUCK REVOLVING LOAN FUND	AMBULANCE REVOLVING LOAN FUND	ILLINOIS ENERGY FUND	NONMAJOR FUNDS	TOTAL
ASSETS								
Current assets:								
Current unrestricted assets:								
Cash and cash equivalents	$ 6,098,624	$ -	$ -	$ -	$ -	$ -	$ 1,278,447	$ 7,377,071
Investments	4,850,555	-	-	-	-	-	3,808,371	8,658,926
Accounts receivable, net	303,621	-	-	-	-	-	-	303,621
Loans receivables, net	418,617	-	-	-	-	-	31,689	450,306
Accrued interest receivable	511,210	-	-	-	-	-	56,238	567,448
Bonds and notes receivable	2,173,000	-	-	-	-	-	-	2,173,000
Due from other funds	17,403	-	-	-	-	-	19,126	36,529
Due from other local government agencies	-	-	-	-	-	-	3,000,000	3,000,000
Prepaid expenses	53,217	-	-	-	-	-	-	53,217
Total current unrestricted assets	14,426,247	-	-	-	-	-	8,193,871	22,620,118
Current restricted assets:								
Cash and cash equivalents	-	-	104,740,864	4,507,453	3,770,096	-	1,980,088	114,998,501
Investments	-	-	45,427,031	-	-	-	336,438	45,763,469
Securities lending collateral equity with the State Treasurer	-	-	-	-	-	-	9,079,000	9,079,000
Accrued interest receivable	-	-	256,762	-	-	-	8,425	265,187
Due from primary government	-	-	-	60,000	-	-	-	60,000
Bonds and notes receivable from State component units	-	-	1,738,486	-	-	-	-	1,738,486
Loans receivables, net	-	-	-	1,430,544	94,320	-	114,089	1,638,953
Total current restricted assets	-	-	152,163,143	5,997,997	3,864,416	-	11,518,040	173,543,596
Total current assets	14,426,247	-	152,163,143	5,997,997	3,864,416	-	19,711,911	196,163,714
Noncurrent assets:								
Noncurrent unrestricted assets:								
Investments	13,614,900	-	-	-	-	-	8,502,813	22,117,713
Loans receivables, net	1,534,282	-	-	-	-	-	125,999	1,660,281
Bonds and notes receivable	22,987,037	-	-	-	-	-	-	22,987,037
Capital assets, net of accumulated depreciation	119,372	-	-	-	-	-	-	119,372
Total noncurrent unrestricted assets	38,255,591	-	-	-	-	-	8,628,812	46,884,403

See accompanying notes to the basic financial statements.

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
(A Component Unit of the State of Illinois)
Statement of Net Position (continued)
June 30, 2014

	GENERAL OPERATING FUND	BOND FUND	OTHER STATE OF ILLINOIS DEBT FUND	FIRE TRUCK REVOLVING LOAN FUND	AMBULANCE REVOLVING LOAN FUND	ILLINOIS ENERGY FUND	NONMAJOR FUNDS	TOTAL
Noncurrent restricted assets:								
Cash and cash equivalents	-	-	-	-	-	-	18,519,129	18,519,129
Investments	-	-	5,479,875	-	-	-	405,242	5,885,117
Accrued interest receivable	-	-	-	-	-	-	7,000	7,000
Loans receivables, net	-	-	-	15,622,269	321,600	-	1,495,932	17,439,801
Bonds and notes receivable from primary government	-	-	65,239,515	-	-	-	-	65,239,515
Bonds and notes receivable from State component units	-	-	35,124,403	-	-	-	-	35,124,403
Total noncurrent restricted assets	-	-	105,843,793	15,622,269	321,600	-	20,427,303	142,214,965
Total noncurrent assets	38,255,591	-	105,843,793	15,622,269	321,600	-	29,056,115	189,099,368
Total assets	52,681,838	-	258,006,936	21,620,266	4,186,016	-	48,768,026	385,263,082
DEFERRED OUTFLOWS OF RESOURCES								
Net loss on debt refundings	-	-	971,113	-	-	-	-	971,113
Total deferred outflows of resources	-	-	971,113	-	-	-	-	971,113
Total assets and deferred outflows of resources	52,681,838	-	258,978,049	21,620,266	4,186,016	-	48,768,026	386,234,195
LIABILITIES								
Current liabilities:								
Payable from unrestricted current assets:								
Accounts payable	292,674	-	-	-	-	-	-	292,674
Accrued liabilities	173,525	-	-	-	-	-	-	173,525
Due to employees	89,452	-	-	-	-	-	-	89,452
Due to other funds	19,126	-	-	-	-	-	17,403	36,529
Unearned revenue, net of accumulated amortization	87,505	-	-	-	-	-	-	87,505
Total current liabilities payable from unrestricted current assets	662,282	-	-	-	-	-	17,403	679,685
Payable from restricted current assets:								
Due to primary government	-	-	54,343,893	-	-	-	-	54,343,893
Obligation under securities lending of the State Treasurer	-	-	-	-	-	-	9,079,000	9,079,000
Accrued interest payable	-	-	4,309,275	-	-	-	2,435	4,311,710
Bonds and notes payable, primary government	-	-	22,550,000	-	-	-	-	22,550,000
Bonds and notes payable, State component units	-	-	2,838,581	-	-	-	-	2,838,581
Current portion of long term debt	-	-	-	-	-	-	59,390	59,390
Unamortized bond premium	-	-	3,769,340	-	-	-	-	3,769,340
Total current liabilities payable from restricted current assets	-	-	87,811,089	-	-	-	9,140,825	96,951,914
Total current liabilities	662,282	-	87,811,089	-	-	-	9,158,228	97,631,599

See accompanying notes to the basic financial statements.

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
(A Component Unit of the State of Illinois)
Statement of Net Position (continued)
June 30, 2014

	GENERAL OPERATING FUND	BOND FUND	OTHER STATE OF ILLINOIS DEBT FUND	FIRE TRUCK REVOLVING LOAN FUND	AMBULANCE REVOLVING LOAN FUND	ILLINOIS ENERGY FUND	NONMAJOR FUNDS	TOTAL
Noncurrent liabilities:								
Payable from unrestricted noncurrent assets:								
Accrued liabilities	120,000	-	-	-	-	-	-	120,000
Total noncurrent liabilities payable from unrestricted noncurrent assets	120,000	-	-	-	-	-	-	120,000
Payable from restricted noncurrent assets:								
Due to primary government	-	-	-	-	-	-	-	-
Bonds and notes payable, primary government	-	-	119,150,000	-	-	-	-	119,150,000
Bonds and notes payable, State component units	-	-	40,959,074	-	-	-	-	40,959,074
Noncurrent portion of long term debt	-	-	-	-	-	-	369,080	369,080
Unamortized bond premium	-	-	11,057,886	-	-	-	-	11,057,886
Total noncurrent liabilities payable from restricted noncurrent assets	-	-	171,166,960	-	-	-	369,080	171,536,040
Total noncurrent liabilities	120,000	-	171,166,960	-	-	-	369,080	171,656,040
Total liabilities	782,282	-	258,978,049	-	-	-	9,527,308	269,287,639
NET POSITION								
Net investment in capital assets	119,372	-	-	-	-	-	-	119,372
Restricted for:								
Public safety loans	-	-	-	21,620,266	4,186,016	-	-	25,806,282
Agricultural and rural development loans	-	-	-	-	-	-	19,610,133	19,610,133
Renewable energy development	-	-	-	-	-	-	2,207,902	2,207,902
Credit enhancement	-	-	-	-	-	-	600,000	600,000
Unrestricted	51,780,184	-	-	-	-	-	16,822,683	68,602,867
Total net position	$ 51,899,556	$ -	$ -	$ 21,620,266	$ 4,186,016	$ -	$ 39,240,718	$ 116,946,556

See accompanying notes to the basic financial statements.

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
(A Component Unit of the State of Illinois)
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2014

	GENERAL OPERATING FUND	BOND FUND	OTHER STATE OF ILLINOIS DEBT FUND	FIRE TRUCK REVOLVING LOAN FUND	AMBULANCE REVOLVING LOAN FUND	ILLINOIS ENERGY FUND	NONMAJOR FUNDS	TOTAL
Operating revenues:								
Administrative service and closing fees	$ 2,756,871	$ -	$ -	$ -	$ -	$ -	$ -	$ 2,756,871
Annual fees	406,452	26,323	-	-	-	-	-	432,775
Application fees	46,050	-	-	-	-	-	-	46,050
Miscellaneous fees	336,749	-	-	-	-	-	107	336,856
Interest income - loans	101,942	1,323,044	4,467,414	-	-	-	51,827	5,944,227
Total operating revenue	3,648,064	1,349,367	4,467,414	-	-	-	51,934	9,516,779
Operating expenses:								
Employee related expenses	1,711,969	-	-	-	-	-	-	1,711,969
Professional services	1,257,761	361,934	-	-	-	-	38,076	1,657,771
Occupancy costs	316,080	-	-	-	-	-	-	316,080
General and administrative	325,391	-	-	-	-	-	-	325,391
Interest expense	-	1,576,091	6,240,126	-	-	-	4,418	7,820,635
Loss on defeasance of debt	-	1,912,955	-	-	-	-	-	1,912,955
Depreciation and amortization	45,807	-	-	-	-	-	-	45,807
Total operating expenses	3,657,008	3,850,980	6,240,126	-	-	-	42,494	13,790,608
Operating income (loss)	(8,944)	(2,501,613)	(1,772,712)	-	-	-	9,440	(4,273,829)
Nonoperating revenue (expenses):								
Transfer of unused grant funds to the State of Illinois	-	-	-	-	-	(2,341,698)	-	(2,341,698)
Transfer of funds and interest in program from the State of Illinois	-	-	-	21,620,266	4,186,016	-	-	25,806,282
Interest and investment income	63,284	270,162	1,772,712	-	-	198	102,470	2,208,826
Other	51,229	-	-	-	-	-	1,146	52,375
Total nonoperating revenues (expenses)	114,513	270,162	1,772,712	21,620,266	4,186,016	(2,341,500)	103,616	25,725,785
Net income before transfers	105,569	(2,231,451)	-	21,620,266	4,186,016	(2,341,500)	113,056	21,451,956
Transfers:								
Transfers in from other funds	26,361,930	26,619,275	-	-	-	-	-	52,981,205
Transfers out to other funds	(23,978,327)	(26,361,930)	-	-	-	-	(2,640,948)	(52,981,205)
Total transfers in (out)	2,383,603	257,345	-	-	-	-	(2,640,948)	-
Change in net position	2,489,172	(1,974,106)	-	21,620,266	4,186,016	(2,341,500)	(2,527,892)	21,451,956
Net position - beginning of year, as restated (See Note 17)	49,410,384	1,974,106	-	-	-	2,341,500	41,768,610	95,494,600
Net position - end of year	$ 51,899,556	$ -	$ -	$ 21,620,266	$ 4,186,016	$ -	$ 39,240,718	$ 116,946,556

See accompanying notes to the basic financial statements.

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
(A Component Unit of the State of Illinois)
Statement of Cash Flows
For the Year Ended June 30, 2014

	GENERAL OPERATING FUND	BOND FUND	OTHER STATE OF ILLINOIS DEBT FUND	FIRE TRUCK REVOLVING LOAN FUND	AMBULANCE REVOLVING LOAN FUND	ILLINOIS ENERGY FUND	NONMAJOR FUNDS	TOTAL
Cash flows from operating activities:								
Cash received for fees and other	$ 3,407,585	$ 63,827	$ -	$ -	$ -	$ -	$ 107	$ 3,471,519
Cash payments for employee services	(1,703,083)	-	-	-	-	-	-	(1,703,083)
Cash payments to suppliers for goods and services	(2,382,553)	(181,190)	-	-	-	-	(38,076)	(2,601,819)
Net cash used in operating activities	(678,051)	(117,363)	-	-	-	-	(37,969)	(833,383)
Cash flows from noncapital financing activities:								
Bonds and notes principal payments	-	(37,240,000)	(122,812,535)	-	-	-	(58,802)	(160,111,337)
Interest payments	-	(2,267,490)	(10,145,975)	-	-	-	(4,872)	(12,418,337)
Loss on defeasance of debt	-	(1,912,955)	-	-	-	-	-	(1,912,955)
Proceeds from issuance of bonds	-	-	164,329,136	-	-	-	-	164,329,136
Principal paid to the State	-	-	-	(1,479,210)	(94,320)	-	-	(1,573,530)
Permanent capital transfer from the State	-	-	-	4,507,453	3,770,096	-	-	8,277,549
Transfer of the unused grant funds	-	-	-	-	-	(2,341,698)	-	(2,341,698)
Due from other funds	(160,891)	-	-	-	-	-	(67,630)	(228,521)
Due to other funds	38,224	116,790	-	-	-	-	73,507	228,521
Transfers from other funds	1,275,967	26,619,275	-	-	-	-	-	27,895,242
Transfers to other funds	(23,978,327)	(1,275,967)	-	-	-	-	(2,640,948)	(27,895,242)
Net cash provided by (used in) noncapital financing activities	(22,825,027)	(15,960,347)	31,370,626	3,028,243	3,675,776	(2,341,698)	(2,698,745)	(5,751,172)
Cash flows from capital and related financing activities:								
Purchase of capital assets	(48,558)	-	-	-	-	-	-	(48,558)
Net cash used in capital and related financing activities	(48,558)	-	-	-	-	-	-	(48,558)
Cash flows from investing activities:								
Purchase of investments	(53,358,486)	-	(584,379,098)	-	-	-	(20,882,150)	(658,619,734)
Maturity and sales of investments	34,744,550	7,927,698	624,989,087	-	-	-	7,735,536	675,396,871
Interest and dividends on investments	201,785	463,981	(783,782)	-	-	198	135,324	17,506
Cash received for interest on loans	130,227	1,387,864	4,639,906	-	-	-	53,075	6,211,072
Cash received on loan receivables and guarantees	2,883,166	4,701,300	36,872,426	1,479,210	94,320	-	141,928	46,172,350
Cash payments on loan receivables and guarantees	(541,000)	-	(16,649,937)	-	-	-	-	(17,190,937)
Net cash provided by (used in) investing activities	(15,939,758)	14,480,843	64,688,602	1,479,210	94,320	198	(12,816,287)	51,987,128
Net increase (decrease) in cash and cash equivalents	(39,491,394)	(1,596,867)	96,059,228	4,507,453	3,770,096	(2,341,500)	(15,553,001)	45,354,015
Cash and cash equivalents - beginning of year	45,590,018	1,596,867	8,681,636	-	-	2,341,500	37,330,665	95,540,686
Cash and cash equivalents - end of year	$ 6,098,624	$ -	$ 104,740,864	$ 4,507,453	$ 3,770,096	$ -	$21,777,664	$ 140,894,701

See accompanying notes to the basic financial statements.

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
(A Component Unit of the State of Illinois)
Statement of Cash Flows (continued)
For the Year Ended June 30, 2014

	GENERAL OPERATING FUND	BOND FUND	OTHER STATE OF ILLINOIS DEBT FUND	FIRE TRUCK REVOLVING LOAN FUND	AMBULANCE REVOLVING LOAN FUND	ILLINOIS ENERGY FUND	NONMAJOR FUNDS	TOTAL
Reconciliation of operating income to net cash used in operating activities:								
Operating income (loss)	$ (8,944)	$ (2,501,613)	$ (1,772,712)	$ -	$ -	$ -	$ 9,440	$ (4,273,829)
Adjustments to reconcile operating income (loss) to net cash used in operating activities:								
Depreciation and amortization	45,807	-	-	-	-	-	-	45,807
Interest on loans	(101,942)	(1,323,044)	(4,467,414)	-	-	-	(51,827)	(5,944,227)
Interest expense	-	1,576,091	6,240,126	-	-	-	4,418	7,820,635
Loss on defeasance of debt	-	1,912,955	-	-	-	-	-	1,912,955
Liabilities transferred from/ (to) other funds	(251,230)	251,230	-	-	-	-	-	-
Changes in assets and liabilities:								
Accounts receivable	(208,535)	20,000	-	-	-	-	-	(188,535)
Unearned revenue	87,505	-	-	-	-	-	-	87,505
Prepaid expenses	18,516	-	-	-	-	-	-	18,516
Accounts payable and accrued liabilities	(268,115)	(52,982)	-	-	-	-	-	(321,097)
Due to employees	8,887	-	-	-	-	-	-	8,887
Net cash used in operating activities	$ (678,051)	$ (117,363)	$ -	$ -	$ -	$ -	$ (37,969)	$ (833,383)

Noncash investing, capital, and financing activities:

On June 30, 2014, the Authority defeased all outstanding bonds issued under Illinois Rural Bond Bank Program. Upon defeasance of all the outstanding debt, the Authority transferred all remaining assets and liabilities under this program to the General Operating Fund from the Bond Fund. The transfer consisted of the following noncash assets and liabilities:

Accrued interest receivable	413,946
Bonds and notes receivable - Short term	2,173,000
Bonds and notes receivable - Long term	22,987,037
Accounts payable	(233,725)
Due to other funds	(116,790)
Unearned revenue	(17,505)
Accrued expenses	(120,000)

On April 8, 2014, the Authority and the Office of the State Fire Marshal executed an intergovernmental agreement to use the moneys transferred to the Authority from the Fire Truck Revolving Loan Fund, Ambulance Revolving Loan Fund, and the Fire Station Revolving Loan Fund solely for the purposes for which the moneys would otherwise be used and to set forth procedures to administer the use of the moneys. Upon the execution of the intergovernmental agreement, the Office of the State Fire Marshal transferred to the Authority all moneys and the equity in the loans in these funds.
The noncash transfers consisted of the following:

	Fire Truck Revolving Loan Fund	Ambulance Revolving Loan Fund
Transfer of interest in Fire Truck Revolving Loan Program	17,052,813	
Transfer of interest in Ambulance Revolving Loan Program		415,920

See accompanying notes to the basic financial statements.

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
(A Component Unit of the State of Illinois)
Statement of Fiduciary Net Position - Agency Fund
June 30, 2014

	METRO EAST POLICE DISTRICT COMMISSION FUND
ASSETS	
Current assets:	
Cash and cash equivalents	$ 41,621
LIABILITIES	
Current liabilities:	
Other liabilities	$ 41,621

See accompanying notes to the basic financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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 Authority is governed by a 15-member board of directors, appointed by the Governor with the advice and consent of the Senate.

Component units are separate legal entities for which the primary government is legally accountable. The Authority is a component unit of the State of Illinois for financial reporting purposes because exclusion would cause the State's financial statements to be misleading. These financial statements are included in the State's comprehensive annual financial report and the State's separately issued basic financial statements. The Authority does not treat any other reporting entities as component units.

New Accounting Standards

During the Fiscal Year 2014, the Authority adopted the following Governmental Accounting Standards Board (GASB) standards:

- **GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities***: This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. See Note 17 for more information.

- **GASB Statement No. 66*, Technical Corrections - 2012, an Amendment of GASB Statements No. 10 and 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, Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* and Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

- **GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees***: This Statement will enhance comparability of financial statements among governments by requiring consistent reporting by those governments that extend nonexchange financial guarantees and by those governments that receive nonexchange financial guarantees. This Statement also will enhance the information disclosed about a government's obligations and risk exposure from extending nonexchange financial guarantees. This Statement also will augment the ability of financial statement users to assess the probability that governments will repay obligation holders by requiring disclosures about obligations that are issued with this type of financial guarantee.

Other accounting standards that the Authority is currently reviewing for applicability and potential impact on the financial statements include:

- **GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27***: The objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* as well as the requirements of Statement No. 50, *Pension Disclosures,* as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The implementation of this standard will result in an unfunded pension liability to be recognized on the statement of net position. If applicable, this Statement will be effective for the Authority beginning with its year ending June 30, 2015.

- **GASB Statement No. 69, *Government Combinations and Disposals of Government Operations***: This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. This Statement provides specific accounting and financial reporting guidance for combinations in the governmental environment. This Statement also improves the decision usefulness of financial reporting by requiring that disclosures be made by governments about combination arrangements in which they engage and for disposals of government operations. If applicable, this Statement will be effective for the Authority beginning with its year ending June 30, 2015.

- **GASB Statement No. *71, Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68***: The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions.* The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The requirements of this Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement No. 68 in the accrual-basis financial statements of employers and nonemployer contributing entities. If applicable, this Statement will be effective for the Authority beginning with its year ending June 30, 2015.

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:

General Operating Fund - This fund of the Authority 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 the Illinois Finance Authority Act (20 ILCS 3501/801-40(j)). It is made up of the following programs:

- Accounts for the main operations of the Authority; and
- Accounts for monies received from local governments formerly participating in the Illinois Rural Bond Bank Program.

Bond Fund - Each bond issue is comprised of several accounts as required by the bond indenture. The accounts of all the Illinois Rural Bond Bank bond 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.

Other State of Illinois Debt Fund - Each bond issue is comprised of several accounts as required by the bond indenture. The accounts for other State Illinois agencies and component units' bond issues have been aggregated and reported as the Other State of Illinois Debt 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.

In prior years, activities for the Illinois Rural Bond Bank Program and debt related transactions for other State of Illinois agencies and component units were aggregated and reported in the Bond Fund. Beginning in Fiscal Year 2014, these activities were separated into two separate major funds, as detailed above. There is no change to reported net position due to change in presentation. See Note 18. Please see Note 17 for the restatement of prior year net position due to the implementation of GASB Statement No. 65.

Fire Truck Revolving Loan Fund - The fund of the Authority which accounts for the activity of the Fire Truck Revolving Loan Program. The program was established to provide zero-interest and low-interest loans for the purchase of fire trucks by a fire department, a fire protection district or a township fire department based on need, as determined by the State Fire Marshal.

Ambulance Revolving Loan Fund - The fund of the Authority which accounts for the activity of the Ambulance Revolving Loan Program. This program was established to provide zero-interest and low-interest loans for the purchase of ambulances by a fire department, a fire protection district, a township fire department or a non-profit ambulance service based on need, as determined by the State Fire Marshal.

Illinois Energy Fund - The fund of the Authority which accounts for the activity of the U.S. Department of Energy, Revolving Loan Fund. This program was established to finance energy efficiency and renewable energy projects throughout the State.

In 2014, in accordance with the Metro East Police District Act (70 ILCS 1750/15) and the Illinois Finance Authority (20 ILCS 3501/825-115), the Authority established the Metro East Police District Commission Fund, a fiduciary agency fund of the Authority. All moneys received by the Metro Police District Commission shall be deposited into the Fund. The Authority and the Metro East Police District Commission entered into an intergovernmental agreement to use the moneys deposited into the fund solely for the purposes set forth in the Act. Fiduciary funds are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the government. Fiduciary funds include pension trust funds, private-purpose trust funds, investment trust funds, and agency funds.

Agency funds, such as the Metro East Police District Commission Fund, are used to report resources held in a purely custodial capacity. Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments. As of June 30, 2014, the amount held by the Authority on behalf of the Metro East Police District Commission was $41,621.

In August 2013, the Authority's Board of Directors approved a resolution authorizing the creation of a special purpose entity, to be formed for the express purpose of applying for an allocation of New Markets Tax Credits ("NMTCs"). This program is administered by the U.S. Department of the Treasury's Community Development Financial Institutions Fund ("CDFI Fund"). In order for an entity to apply for an allocation of New Markets Tax Credits, the entity must first apply for and receive a license to be designated as a "Community Development Entity" or "CDE" by the CDFI Fund. To qualify as a CDE, however, an organization must be a domestic corporation or partnership at the time of the CDE certification application. Because the Authority is a body politic and corporate entity, it was necessary to form an affiliated corporation to be certified as a CDE.

As a result, on August 9, 2013, the Illinois Finance Authority Development Fund NFP, an Illinois not-for-profit corporation (the "IFADF"), was incorporated. The primary purpose of the IFADF is to facilitate investment capital and loans which will benefit qualified Low-Income Communities within the State of Illinois. Such transactions will be conducted in connection with the New Markets Tax Credit Program administered by the CDFI Fund (pursuant to Section 45D of the Internal Revenue Code of 1986, as amended). The Authority, as the entity responsibly for the creation of the IFADF, maintains three (3) ex-officio members on the six (6) to eleven (11) member IFADF Board of Directors, and the IFADF Board of Directors governs the organization. In addition to the ex-officio members who are also employees of the Authority, the IFADF Board of Directors consists of community representatives who will facilitate outreach to qualified low-income communities. There were no transactions for this entity in Fiscal Year 2014.

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.

Assets, Liabilities, Deferred Inflows, Deferred Outflows, and Net Position

Cash, Cash Equivalents and Investments

Cash equivalents are defined as short-term, highly liquid investments readily convertible to cash with maturities of 90 days or less at time of purchase. Cash equivalents consist principally of certificates of deposit, repurchase agreements, and U.S. treasury bills and are stated at cost. Per the Authority's investment policy, safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to preserve the investment principal by minimizing credit and interest rate risk, provide liquidity for working capital needs and grow unencumbered portfolio balances through prudent management.

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 deposits and investments (Note 3), long-term obligations (Note 10), revenue bonds payable (Note 10) and commitments and contingencies (Note 13) for additional disclosures.

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.

Issuance Costs and Premium and Unearned Revenue

The Authority is amortizing issuance premiums using the approximate effective interest method. Amounts are presented net of accumulated amortization in the Statement of Net Position. Due to the implementation of GASB Statement No. 65 in FY2014, bond issuance costs and the bond issue related fee revenues will no longer be deferred and amortized, but recognized in the current periods. Adjustments to prior year net position were made which are detailed in Note 17.

Deferred Loss or Gain on Early Extinguishment

The Authority is amortizing a deferred outflow (loss on the refunding of bonds) in the Other State of Illinois Debt Fund over the lesser of the term of the old debt or the new debt using the stated interest method. The unamortized loss is presented as a deferred outflow of resources in the Authority's Statement of Net Position.

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.

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 9 to the financial statements.

Capitalization thresholds and the estimated useful lives are as follows:

Assets	Threshold	Years
Furniture and equipment	$500	5
Computer equipment	$5,000	5
Software	$10,000	3

Vacation and Sick Leave

The Authority's current vacation and sick leave pay policy, effective July 1, 2011, provides for employees to 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 Position in 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, 2014, consisted of the following:

Balance June 30, 2013	Earned	Paid	Balance June 30, 2014	Due Within One Year
$ 80,565	$ 93,539	$ 84,652	$ 89,452	$ 89,452

Termination Benefits

Termination, or severance benefits, are specified and detailed in separation agreements between the Authority and former employees. In Fiscal Year 2014, two employees were granted severance benefits. These benefits include continued payments of the employee's salary for a specified duration of time. The cost of these benefits is 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 2014 is $40,926.

Net Position

In the financial statements, net position is displayed in three components as follows:

<u>Net Investment in Capital Assets</u> - 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.

<u>Restricted</u> - This consists of net position that is 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, 2014, the Authority had restricted net position of $48,224,317 of which $17,926,129 is restricted by enabling legislation.

<u>Unrestricted</u> - All other net position that do not meet the definition of "restricted" or "net investment in capital assets."

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.

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.

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. In regards to these conduit issuances, neither the Authority or the 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, 2014, the aggregate amount of conduit debt outstanding is approximately $23.65 billion.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The Illinois Finance Authority does not receive any State appropriations to support the administration and operation of the Authority. Instead, the Authority is financed from fees charged to borrowers who utilize the Authority to issue primarily tax-exempt debt, as well as from interest and fees collected from certain loans and investments.

The Authority is the steward of two State of Illinois appropriated funds, the Illinois Agricultural Loan Guarantee Fund and the Illinois Agribusiness Loan Guarantee Fund. These funds are mission driven programs to assist in the expansion of the agricultural industry throughout Illinois. Further, the Authority is the steward of the Fire Truck Revolving Loan Fund and

Ambulance Revolving Loan Fund. These funds are mission driven programs to assist local governments and non-profit entities perform public safety functions. In addition, the Authority adopts an annual budget for the General Operating Fund at its July meeting for the upcoming fiscal year.

The Authority participates in an annual financial audit and a bi-annual compliance examination conducted by the State of Illinois, Office of the Auditor General and internal audits conducted by a licensed certified public accounting firm. It is an ongoing Authority initiative to increase and maintain sufficient levels of internal controls and comply with all regulatory and statutory requirements.

NOTE 3. CASH DEPOSITS AND INVESTMENTS

Cash, Deposits and Investments

Cash and Investments as of June 30, 2014, are classified in the accompanying basic financial statements as follows:

Cash and cash equivalents - unrestricted	$	7,377,071
Cash and cash equivalents - fiduciary fund		41,621
Cash and cash equivalents - restricted current assets		114,998,501
Cash and cash equivalents - restricted noncurrent assets		18,519,129
Investments - unrestricted		8,658,926
Investments - unrestricted noncurrent assets		22,117,713
Investments - restricted current assets		45,763,469
Investments - restricted noncurrent assets		5,885,117
Total	$	223,361,547

Cash and investments as of June 30, 2014, consist of the following:

Deposits with financial institutions	$	322,013
Deposits with State of Illinois Treasurer		17,919,129
Investments		205,120,405
Total	$	223,361,547

Allowable Investments

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

a. U.S. Government securities, including securities of the federal agencies;
b. Securities guaranteed by the federal government;

c. Savings accounts, certificates of deposit, and time deposits in banks or savings and loans insured by the Federal Deposit Insurance Corporation (FDIC) with 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; and,
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:

<u>Credit Enhancement Funds</u> - 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.

<u>Federally Assisted Programs</u> - 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 Fund and Other State of Illinois Debt Fund - 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, 2014, the Weighted Average Maturities of the Authority's investments were:

Investment Type	June 30, 2014	Weighted Average Maturity (in years)
U.S. Treasury notes	$ 5,267,945	2.09
Federal agency securities	42,058,741	0.92
State investment pool (Illinois Funds)	1,000,452	0.09
Money market funds	115,262,647	N/A
Commercial paper	20,087,000	0.11
Corporate debt	6,052,790	0.23
Municipal debt	8,873,749	1.84
Repurchase agreements	6,517,081	0.00
Total	$ 205,120,405	

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:

		Ratings		
Investment Type	June 30, 2014	S & P	Moody's	Fitch
U.S. Treasury notes	$ 1,040,969	AAA	Aaa	-
U.S. Treasury notes	4,226,976	AA	Aaa	-
U.S. Government agency notes	42,058,741	AA	Aaa	-
Illinois Funds	1,000,452	AAA	-	-
Money market funds	115,262,647	AAA	Aaa	-
Commercial paper	19,087,000	A 1	P- 1	-
Commercial paper	1,000,000	BBB	Baa	-
Corporate debt securities	1,880,662	AAA	Aaa	-
Corporate debt securities	125,702	AA	AA	-
Corporate debt securities	181,651	AA	A	-
Corporate debt securities	409,786	AA	Aa	-
Corporate debt securities	2,810,712	A	A	-
Corporate debt securities	644,277	A	Baa	-
Municipal debt	4,630,216	AAA	Aaa	-
Municipal debt	427,858	AAA	-	AAA
Municipal debt	677,964	AAA	Aa	-
Municipal debt	10,041	AAA	A	-
Municipal debt	708,469	AAA	-	-
Municipal debt	140,264	AA	AA	-
Municipal debt	100,000	AA	-	AA
Municipal debt	40,020	AA	A	-
Municipal debt	101,073	AA	Aaa	-
Municipal debt	386,174	AA	Aa	-
Municipal debt	310,000	A	A	-
Municipal debt	225,900	A	Aa	-
Municipal debt	10,000	A	-	A
Municipal debt	323,397	-	Aaa	-
Municipal debt	276,845	-	Aaa	AAA
Municipal debt	100,260	-	Aa	-
Municipal debt	10,040	-	A	AA
Municipal debt	200,130	AA	-	-
Municipal debt	45,098	A	-	-
Municipal debt	150,000	-	A	-
Repurchase agreements	6,517,081	AA	Aaa	-
Total	$ 205,120,405			

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:

- 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.

- 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.

- 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, 2014, 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
Federal Home Loan Bank	U.S. Government Agency Notes	$ 18,081,649
Federal Home Loan Mortgage Corporation	U.S. Government Agency Notes	$ 10,582,242
Goldman Sachs Financial Square Government Fund	Money Market Mutual Funds	$ 109,154,936

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. U. S. 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, 2014, 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. In addition, all of the Authority's investments were held by third parties and in the name of the Authority.

The Illinois Funds is an external investment pool administered by the Treasurer of the State of Illinois. 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 ILCS 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 (Bank). 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, 2014, the Authority had invested $6,517,081 under these agreements. The underlying securities are held by Bank of America's safekeeping department.

NOTE 4. SECURITIES LENDING TRANSACTIONS

The Treasurer of the State of Illinois (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 AG to lend the State Treasurer's securities to broker-dealers and banks pursuant to a form of loan agreement.

During Fiscal Year 2014, Deutsche Bank AG lent U.S. Agency Securities and U.S. Treasury securities and received as collateral U.S. dollar denominated cash. Borrowers were required to deliver collateral for each loan equal to at least 100% of the 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 Fiscal Year 2014 on the amount of the loans of available or the eligible securities. In the event of borrower default, Deutsche Bank AG provides the State Treasurer with counterparty default indemnification. In addition, Deutsche Bank AG is obligated to indemnify the State Treasurer if Deutsche Bank AG loses any securities, collateral or investments of the State Treasurer in Deutsche Bank AG's custody. Moreover, there were no losses during Fiscal Year 2014 resulting from a default of the borrowers or Deutsche Bank AG.

During Fiscal Year 2014, 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 AG 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, 2014, 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 $5,123,000 and $3,956,000 respectively, as of June 30, 2014.

NOTE 5. BONDS, NOTES 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 federal program, the Rural Development Loan Program. Bonds and notes receivable from local governmental units represent amounts loaned to the units through the purchase of their securities.

Illinois Housing Partnership Program - 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. The total loan outstanding as of June 30, 2014, was $3,000,000.

Direct Lending Participation 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, 2014, were $2,955,080.

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 United States Department of Commerce, Economic Development Agency. 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, 2014, were $91,484. The E.D.A Title IX Restricted Revolving loans are fully reserved.

The Authority discontinued the E.D.A. Title IX Revolving Loan Program in June 2012 due to the lack of activity in the program and returned the funds to the State of Illinois, Department of Commerce and Economic Opportunity.

The Rural Development Revolving Loan Program - The Rural Development Revolving Loan Program participates with the United States Department of Agriculture's 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, 2014, were $227,046.

Fire Truck Revolving Loan Program - This program provides zero interest and low-interest rate loans for the purchase of fire trucks by fire departments, fire protection districts, or township fire departments. This program was expanded in 2012 to include loans for "brush trucks". Brush truck loans under the program will bear interest at 2% simple interest if both the chassis and the apparatus are built outside Illinois, 1% simple interest if either the chassis or the apparatus is built in Illinois, or zero interest if both the chassis and apparatus are built in Illinois. The loans to each department, district, or township may not exceed $350,000 and must be repaid within 20 years. A loan for the purchase of brush trucks may not exceed $100,000 per truck. This program is funded by transfers from the State of Illinois, collections on outstanding loans, and ongoing transfers from the State of Illinois of fines from traffic violations. Total loans outstanding as of June 30, 2014, were $17,052,813. As of June 30, 2014, no loans had been made under this program for brush trucks.

Ambulance Revolving Loan Program - This program provides zero interest and low-interest rate loans for the purchase of ambulances by fire departments, fire protection districts, township fire departments, and non-profit ambulance services. This program is funded by transfers from the State of Illinois and collections on outstanding loans. The loans may not exceed $100,000 and must be repaid within 10 years. Total loans outstanding as of June 30, 2014, were $415,920.

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. These loans are typically used by the local governments to finance short-term financing needs until a longer term financing solution becomes available under the Bond Bank Lending Program. Total loans outstanding as of June 30, 2014, were $157,688.

Local Government Borrowing Program - This program facilitates the financing needs of a broad array of governmental units located throughout the State. The loans are used by the local governments to finance long term water and sewer infrastructure improvements and general capital improvement projects. 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. This program was funded by the issuance of revenue bonds. Further information on these revenue bonds can be found in Note 10 to the financial statements. Total loans outstanding as of June 30, 2014, were $25,160,037.

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 loans under this program were used to fund Illinois's Clean Water and Drinking Water revolving loan program administered by the State of Illinois, Environmental Protection Agency and to fund capital projects of other State agencies. This program was funded by the issuance of revenue bonds. Further information on these revenue bonds can be found in Note 10 to the financial statements. 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, 2014, were $102,102,404.

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, 2014, were $1,396,598.

Allowance for Doubtful Accounts

The allowance for doubtful accounts for all loans and notes receivable at June 30, 2014 is comprised of two components: a general reserve and a reserve for delinquencies. 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. The Illinois Rural Bond Bank's loans, loans to entities of the State of Illinois, and loans within 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 upon prior experience is zero.

Accounts, bonds and loans receivable for the year ended June 30, 2014, consisted of the following:

	All Receivables June 30, 2014	Allowance for Doubtful Accounts	Net Receivable June 30, 2014
Accounts Receivable	$ 328,410	$ (24,789)	$ 303,621
Illinois Housing Partnership Program	3,000,000	-	3,000,000
Direct Lending Participation Program	2,955,080	(1,002,181)	1,952,899
The E.D.A. Title IX Revolving Loan Program	91,484	(91,484)	-
The Rural Development Revolving Loan Program	227,046	(13,623)	213,423
Fire Truck Revolving Loan Program	17,052,813	-	17,052,813
Ambulance Revolving Loan Program	415,920	-	415,920
Local Government Financing Assistance Program	157,688	-	157,688
Local Government Borrowing Program	25,160,037	-	25,160,037
Loans with the Primary Government and Component Units of the State	102,102,404	-	102,102,404
Renewable Energy Development Program	1,396,598	-	1,396,598
	$ 152,887,480	$ (1,132,077)	$ 151,755,403

NOTE 6. GUARANTEE RECEIVABLES

Guarantee receivables result from amounts due to the Authority after it has paid a guarantee claim. Under the Authority's guarantee program (see Note 13 to the financial statements) 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.

Activity related to guarantee receivables for the year ended June 30, 2014, 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	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, 2014, is the difference between the guarantee payments made and the Authority's estimation of the value of any collateral securing the guarantee.

NOTE 7. VENTURE CAPITAL INVESTMENTS

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 predecessor 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 liquidated the marketable portion of this portfolio and 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 of $2,971,385, for which a 100% allowance for a decline in the market value was recognized.

NOTE 8. INTERFUND TRANSFERS AND BALANCES

Interfund Transfers

Interfund transfers are defined as the flow of assets, such as cash or goods, without equivalent flows of assets in return. Interfund borrowings are reflected as "Due to/from Other Funds" on the accompanying financial statements. All other interfund transfers are reported as transfers in/out.

Balance due from/to other funds - The following amounts represent balances due to/from major and also nonmajor funds as of June 30, 2014:

	Due from		
Funds	**Other Major Funds**	**Other Nonmajor Funds**	**Description/Purpose**
General Operating Fund	$ -	$ 17,403	Due from the Renewable Energy Development Fund and Rural Development Revolving Loan Fund for the payment of administrative costs.
Nonmajor Funds	19,126	-	Due from the General Operating Fund for the receipt of loan payments from Illinois Rural Bond Bank (IRBB) borrowers.
Total	$ 19,126	$ 17,403	

	Due to		
Funds	**Other Major Funds**	**Other Nonmajor Funds**	**Description/Purpose**
Nonmajor Funds	$ 17,403	$ -	Due to the General Operating Fund for the payment of administrative costs.
General Operating Fund	-	19,126	Due to the IRBB Special Reserve Fund for the receipt of borrower's loan payments.
Total	$ 17,403	$ 19,126	

Transfers to/from other funds - Interfund transfers for the year ended June 30, 2014, were as follows:

	Transfers to		
Funds	**Other Major Funds**	**Other Nonmajor Funds**	**Description/Purpose**
Bond Fund	$ 23,978,327	$ -	Transfer from the General Operating Fund for the defeasance of Illinois Rural Bond Bank bonds.
Bond Fund	2,640,948	-	Transfer from the IRBB Special Reserve Fund for the defeasance of Illinois Rural Bond Bank bonds.
General Operating Fund	26,361,930	-	Transfer from the Bond Fund for the defeasance of Illinois Rural Bond Bank bonds.
Total	$ 52,981,205	$ -	

	Transfers from		
Funds	**Other Major Funds**	**Other Nonmajor Funds**	**Description/Purpose**
General Operating Fund	$ 23,978,327	$ -	Transfer to the Bond Fund for the defeasance of Illinois Rural Bond Bank bonds.
IRBB Special Reserve Fund	-	2,640,948	Transfer to the Bond Fund for the defeasance of Illinois Rural Bond Bank bonds.
Bond Fund	26,361,930	-	Transfer to the General Operating Fund (remaining assets and equity following the IRBB defeasance)
Total	$ 50,340,257	$ 2,640,948	

NOTE 9. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014, was as follows:

	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014
Capital assets being depreciated:				
Furniture and equipment	$ 223,040	$ -	$ 821	$ 222,219
Computers	123,688	4,732	-	128,420
Software	240,388	43,825	-	284,213
Total capital assets being depreciated	587,116	48,557	821	634,852
Less: Accumulated depreciation				
Furniture and equipment	217,254	1,792	821	218,225
Computers	34,331	21,522	-	55,853
Software	218,910	22,492	-	241,402
Total accumulated depreciation	470,495	45,806	821	515,480
Capital assets, net of depreciation	$ 116,621	$ 2,751	$ -	$ 119,372

The Authority’s records were reconciled to the records maintained by the Comptroller of the State of Illinois as of June 30, 2014.

NOTE 10. LONG-TERM OBLIGATIONS

Revenue Bonds Payable

A summary of changes in revenue bonds payable for the year ended June 30, 2014, is below:

Revenue bonds payable:	Balance June 30, 2013	Additions	(Retirements)	Balance June 30, 2014	Amounts Due Within One Year
Illinois Rural Bond Bank	$ 37,240,000	$ -	$ (37,240,000)	$ -	$ -
State of Illinois, Environmental Protection Agency	107,770,000	141,700,000	(107,770,000)	141,700,000	22,550,000
Northern Illinois University	12,415,000	-	(12,415,000)	-	-
Northern Illinois University Foundation	2,230,875	5,754,315	(1,787,535)	6,197,655	1,518,581
Illinois Medical District Commission	38,440,000	-	(840,000)	37,600,000	1,320,000
	198,095,875	147,454,315	(160,052,535)	185,497,655	25,388,581
Unamortized issuance premium	2,424,958	16,874,821	(4,472,553)	14,827,226	3,769,340
Total revenues bonds payable	$200,520,833	$164,329,136	$ (164,525,088)	$200,324,881	$29,157,921

The future debt service requirements for revenue bonds as of June 30, 2014, including interest payments are as follows:

Total Outstanding Revenue Bonds

Fiscal Period Ending June 30	Principal	Interest	Total
2015	$ 25,388,581	$ 8,711,383	$ 34,099,964
2016	23,766,620	7,356,632	31,123,252
2017	23,003,155	6,423,518	29,426,673
2018	22,485,620	5,322,535	27,808,155
2019	19,375,295	4,266,432	23,641,727
2020-2024	50,548,384	10,599,583	61,147,967
2025-2029	12,070,000	3,953,053	16,023,053
2030-2034	8,860,000	709,841	9,569,841
	$ 185,497,655	$ 47,342,977	$ 232,840,632

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 2034. Principal and interest payments on the bonds are expected to require approximately 100% of these loan revenues. All bonds outstanding at June 30, 2014, 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.

Moral Obligation - 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 for subsequent appropriation. Bonds issued on behalf of the Illinois Medical District Commission are considered moral obligation revenue bonds.

Component Units and Primary Government - The revenue bonds of the component units and primary government of the State of Illinois were not issued with the State's moral obligation pledge attached (see exception for the Illinois Medical District Commission). Bonds issued for the benefit of other agencies and component units of the State of Illinois are comprised of the following:

State of Illinois Revolving Fund, Series 2013 (Clean Water Initiative) - original issue \$141,700,000, dated December 5, 2013, provides for serial retirement of principal beginning July 1, 2014 and every January 1 and July 1, thereafter, and interest payable on January 1 and July 1 of each year at rates of 1.00% to 5.00%. Final maturity is July 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 1.875%. Final maturity is August 15, 2016.

Northern Illinois University Foundation, Series 2013 - principal not to exceed \$6,100,000, provides for advances as needed to pay construction costs. Interest is payable February 15 and August 15 of each year commencing August 15, 2013 at the rate of 1.62%. Final maturity is February 15, 2021.

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
(A Component Unit of the State of Illinois)
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2014

The following schedule details the changes of all revenue bonds payable as of June 30, 2014:

	Balance June 30, 2013	Additions	(Retirements)	Balance June 30, 2014	Amounts Due within One Year
Illinois Rural Bond Bank					
1992 B Bonds	$	$ -	$ (65,000)	$ -	$ -
1993 B Bonds	45,000	-	(45,000)	-	-
1995 A Bonds	45,000	-	(45,000)	-	-
1997 B Bonds	345,000	-	(345,000)	-	-
1998 A Bonds	345,000	-	(345,000)	-	-
1998 B Bonds	900,000	-	(900,000)	-	-
1999 A Bonds	665,000	-	(665,000)	-	-
2000 A Bonds	145,000	-	(145,000)	-	-
2000 B Bonds	420,000	-	(420,000)	-	-
2001 A Bonds	595,000	-	(595,000)	-	-
2001 B Bonds	1,320,000	-	(1,320,000)	-	-
2002 A Bonds	300,000	-	(300,000)	-	-
2003 A Bonds	3,850,000	-	(3,850,000)	-	-
2003 B Bonds	4,325,000	-	(4,325,000)	-	-
2004 A Bonds	1,375,000	-	(1,375,000)	-	-
2006 A Bonds	8,420,000	-	(8,420,000)	-	-
2006 B Bonds	1,595,000	-	(1,595,000)	-	-
2007 A Bonds	5,270,000	-	(5,270,000)	-	-
2007 B Bonds	1,590,000	-	(1,590,000)	-	-
2008 A Bonds	1,610,000	-	(1,610,000)	-	-
2009 A Bonds	4,015,000	-	(4,015,000)	-	-
Northern Illinois University					
Series 1999	12,415,000	-	(12,415,000)	-	-
Northern Illinois University Foundation					
Series 2006	2,108,875	-	(1,011,064)	1,097,811	622,300
Series 2013	122,000	5,754,315	(776,471)	5,099,844	896,281
Unamortized issuance premium	16,377	-	(16,377)	-	-
Illinois Environmental Protection Agency					
Clean Water Series 2002	46,250,000	-	(46,250,000)	-	-
Clean Water Series 2004	61,520,000	-	(61,520,000)	-	-
Unamortized issuance premium	2,408,581	-	(2,408,581)	-	-
Clean Water Series 2013	-	141,700,000	-	141,700,000	22,550,000
Unamortized issuance premium	-	16,874,821	(2,047,595)	14,827,226	3,769,340
Illinois Medical District Commission					
Series 2006 A	6,840,000	-	(240,000)	6,600,000	245,000
Series 2006 B	31,600,000	-	(600,000)	31,000,000	1,075,000
	$ 200,520,833	$ 164,329,136	$(164,525,088)	$ 200,324,881	$ 29,157,921

Revolving Loans

Fire Truck Revolving Loans - 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 Authority is authorized to grant interest-free and low-interest loans for the purchase of fire trucks and brush 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 $350,000. Repayment period for each loan may not exceed 20 years and requires a minimum of 5% of the principal amount borrowed each year.

Ambulance Revolving Loans - 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 Authority is authorized to grant interest-free and low-interest 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.

In April 2014, the Authority and the Office of the State Fire Marshal entered into an intergovernmental agreement to jointly administer the Fire Truck, Fire Station, and Ambulance Revolving Loan programs. Shortly after the adoption of this intergovernmental agreement, the Office of the State Fire Marshal paid all moneys on deposit in these funds to the Authority for the sole purpose of funding loans under the loan programs as required by the Illinois Finance Authority Act. In addition, all moneys deposited in the future will be paid to the Authority to provide future funding for loans. In FY2014, in regards to these previous deposits, the State of Illinois transferred capital of $4,507,453 and $3,770,096 for the Fire Truck and Ambulance programs, respectively.

In addition, per the implementation of Public Act 97-0901, the Authority, for financial reporting purposes only, eliminated the $17,052,813 and $415,920 balances due to the primary government within the Authority’s funds. As the principal and interest amounts collected from the local governments and non-profit entities will ultimately be retained by the Authority, the Authority no longer possesses a present obligation to sacrifice the resources represented by the loans and interest receivable from the local governments and non-profit entities to the State.

Intermediary Relending Program - The predecessor authorities (see 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 Rural Development Revolving Loan Fund were 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.

Changes in loan payables for the Rural Development Revolving Loan are summarized below:

	Balance June 30, 2013	Repayments	Balance June 30, 2014	Due Within One Year
Rural Development Revolving Loan	$ 487,273	$ 58,803	$ 428,470	$ 59,390

Principal and interest payments for the loans due at June 30, 2014, are as follows:

	Principal	Interest	Total
Year ending June 30:			
2015	$ 59,390	$ 4,285	$ 63,675
2016	59,984	3,691	63,675
2017	60,584	3,091	63,675
2018	61,190	2,485	63,675
2019	61,802	1,873	63,675
2020-2021	125,520	1,887	127,407
	$ 428,470	$ 17,312	$ 445,782

NOTE 11. REFUNDING AND EXTINGUISHMENT OF DEBT

Defeasance of Revenue Bonds

On December 5, 2013, the Authority issued $141,700,000 in revenue bonds. A portion of the proceeds were used to advance refund $41,850,000 of outstanding Series 2002 Clean Water Bonds and $57,270,000 of outstanding Series 2004 Clean Water Bonds. As a result, the Series 2002 and 2004 bonds are considered to be defeased and the liability for those bonds has been removed from the Statement of Net Position because related assets have been placed in an irrevocable trust that, together with interest earned, will provide amounts sufficient for payment of all principal and interest.

The advance refunding resulted in a difference between reacquisition price and the net carrying amount of the old debt of $971,773. The unamortized difference, reported in the accompanying financial statements as a deferred outflow of resources, is being charged to operations through Fiscal Year 2023 using the stated interest method. The Authority completed the advance refunding to reduce its total debt service payments over the next 10 years by $8,420,905 and to obtain an economic gain (difference between the present value of the old and new debt service payments) of $8,097,508.

On June 30, 2014, the Authority deposited $34,932,649 in an irrevocable trust to defease all outstanding Rural Bond Bank Revenue Bonds in the par value of $32,355,000. As a result, the Rural Bond Bank Revenue Bonds are considered to be defeased and the liability for those bonds has been removed from the Statement of Net Position because related assets have been placed in an irrevocable trust that, together with interest earned, will provide amounts sufficient for payment of all principal and interest.

The extinguishment of debt resulted in a difference between reacquisition price and the net carrying amount of the old debt of $1,912,955. The difference, reported in accompanying Statement of Revenues, Expenses and Changes in Net Position is being charged to operations in Fiscal Year 2014 since new debt was not issued to defease these bonds. As a result of the defeasance, the Authority achieved cash flow savings of $9,798,123 and an economic gain of $7,119,697.

Defeased bonds at June 30, 2014, are as follows:

	Amount Defeased	Amount Outstanding
Illinois Rural Bond Bank:		
1992 B Bonds	$ 55,000	$ 55,000
1998 A Bonds	300,000	300,000
1998 B Bonds	780,000	780,000
1999 A Bonds	605,000	605,000
2000 A Bonds	60,000	60,000
2000 B Bonds	380,000	380,000
2001 B Bonds	1,230,000	1,230,000
2002 A Bonds	275,000	275,000
2003 A Bonds	3,570,000	3,570,000
2003 B Bonds	3,730,000	3,730,000
2004 A Bonds	225,000	225,000
2006 A Bonds	7,800,000	7,800,000
2006 B Bonds	1,530,000	1,530,000
2007 A Bonds	5,040,000	5,040,000
2007 B Bonds	1,370,000	1,370,000
2008 A Bonds	1,560,000	1,560,000
2009 A Bonds	3,845,000	3,845,000
	32,355,000	32,355,000
State of Illinois, Environmental Protection Agency:		
Clean Water Series 2002	41,850,000	-
Clean Water Series 2004	57,270,000	53,405,000
	99,120,000	53,405,000
	$ 131,475,000	$ 85,760,000

NOTE 12. LEASE COMMITMENTS

Operating Leases

Total rent expense for all four Illinois Finance Authority locations for the year ended June 30, 2014 was $249,704.

BPFRU/Prudential Plaza - The Authority is obligated under a long-term operating lease for its Chicago office location. 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 31, 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, 2014, is $107,349, which represents the current year amortization. Rent expense for the year ended June 30, 2014, is $235,121. See also Note 19 for subsequent events.

DCEO - The Authority entered into an Interagency Agreement with the State of Illinois, Department of Commerce and Economic Opportunity to lease office space in Springfield free of charge, effective July 1, 2013, until June 30, 2016.

The Greater Peoria Business Alliance - The Authority terminated the lease agreement at 100 Southwest Water Street; Peoria, Illinois 61602. The termination was effective February 15, 2014. Total rent expense for June 30, 2014, was $3,458.

One Oaks - The Authority entered into a rental lease agreement for office space at 2929 Broadway, Suite #7B; Mount Vernon; Illinois 62864. The term of the lease expires in June 2019. Annual base rent payments are approximately $11,670.

Equipment Leases - The Authority entered into an equipment lease agreement for two digital copiers for its Chicago and Mt. Vernon offices for 36 months. The term of the lease expires in April 2017. Annual base rental payments are approximately $9,960.

The future minimum lease commitments as of June 30, 2014, are as follows:

Fiscal Year Ending June 30	Amount
2015	$ 46,379
2016	21,576
2017	20,206
2018	12,156
2019	12,408
	$ 112,725

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, 2014, no amounts have been drawn against this letter of credit.

NOTE 13. COMMITMENTS AND CONTINGENCIES

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 predecessor Illinois Development Finance Authority if the company liable under the bond indenture were to default on repayment of the bond. At June 30, 2014, restricted demand deposits totaling $600,000 were held in the Credit Enhancement Fund for this purpose.

Federally Assisted Programs

The Authority participates in the following federally assisted programs:

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

The Authority discontinued 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. There is one loan remaining in this fund, for which the Authority has sought approval from the Attorney General to write off the balance.

FmHA–Intermediary Relending Program

Demand deposits of $1,904,228 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 $213,423 in net loans receivable which secure the loans of the intermediary relending 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. In April 2014, the Authority returned the funds to Department of Commerce and Economic Opportunity due to the lack of activity in the grant program.

Loan Guarantees

The Authority has a contingent liability regarding the loan guarantees outstanding at June 30, 2014. 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 then 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, 2014		
	Illinois Agricultural Loan Guarantee Fund	**Illinois Farmer Agribusiness Loan Guarantee Fund**	**Total**
Cash Deposits	$ 10,110,724	$ 7,808,405	$ 17,919,129
<u>Maximum Outstanding Guarantees</u>:			
State Guarantee Program for Restructuring Agricultural Debt	$ 9,243,360	$ -	$ 9,243,360
Specialized Livestock Loan Guarantee Program	-	2,763,756	2,763,756
Young Farmer Loan Guarantee Program	-	1,047,929	1,047,929
Farmer and Agri-Business Loan Guarantee Program	-	5,108,251	5,108,251
Farm Purchase	-	917,680	917,680
Total	$ 9,243,360	$ 9,837,616	$ 19,080,976

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 and investments totaling $11,649,616 at June 30, 2014.

NOTE 14. RISK FINANCING ACTIVITIES

The Authority addresses the possibility of loss due to certain business related operations such as theft, asset damage, employee injuries or natural disasters through the purchase of commercial insurance coverage. The Authority's coverage under its current risk management policy has not experienced any significant changes nor has the impact of any settlements exceeded coverage over the past three years.

The Authority maintains reserves in its General Operating Fund to appropriately handle any associated financial obligations that may occur due to the above mentioned risks.

NOTE 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 2014 are:

YEAR	MAXIMUM CONTRIBUTION	AGE 50 CATCH UP
2014	$17,500	$23,000

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 2014 were $93,721 and $95,448, respectively.

NOTE 16. TRANSACTIONS WITH THE PRIMARY GOVERNMENT

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 predecessor Illinois Development Finance Authority used to finance a primary government project. The Authority also administers certain programs for the State.

Due to primary government (OAG) - The State of Illinois, Office of the Auditor General engaged an external audit firm to perform an audit of the Illinois Finance Authority's basic financial statements. The General Operating Fund of the Authority is indebted with the State of Illinois, Office of the Auditor General in the amount of $42,500 for audit related fees.

Due to primary government (IEPA) - Included in the Other State of Illinois Debt Fund are monies held for new loans under the revolving loan program administered by the State of Illinois, Environmental Protection Agency. Total amount held as of June 30, 2014, is $54,343,893.

NOTE 17. RESTATEMENT DUE TO IMPLEMENTATION OF NEW ACCOUNTING STANDARDS

For Fiscal Year 2014, the Authority made several prior period adjustments, due to the adoption of GASB Statement No. 65, which required the restatement of net position as of July 1, 2013. With the adoption of GASB Statement No. 65, the Authority is reporting the unamortized loss on bond refunding as a deferred outflow, bond issuance costs are expensed and no longer amortized annually, and deferred revenues attributed to bond issuances are recognized in the period earned and no longer amortized annually.

The results include a net increase in Net Position in the General Operating Fund of $98,716 and a decrease in Net Position in the Bond Fund of $67,656, as detailed below:

General Operating Fund		**Amount**
Net Position, June 30, 2013, as previously reported	$	49,311,668
Reclassification of bond issuance costs		(203,545)
Reclassification of unearned revenue		302,261
Net Position, July 1, 2013, as restated	$	49,410,384

Bond Fund	Amount
Net Position, June 30, 2013, as previously reported	$ 2,041,762
Reclassification of bond issuance costs	(67,656)
Net Position, July 1, 2013, as restated	$ 1,974,106

NOTE 18. CHANGE IN PRESENTATION

Beginning in Fiscal Year 2014, the Authority is presenting activity for the Illinois Rural Bond Bank Program (and other Authority bond debt) and the debt-related transactions for other State of Illinois component units as two major separate funds. In prior years, these programs were aggregated under the Bond Fund. Please see the comparison below between the previous and current presentations.

	2013 (as restated)			2014		
	Bond Fund	Other State of Illinois Debt Fund	Total	Bond Fund	Other State of Illinois Debt Fund	Total
Operating revenues	$ 1,553,648	$ 6,300,059	$ 7,853,707	$ 1,349,367	$ 4,467,414	$ 5,816,781
Operating expenses	1,945,174	8,033,631	9,978,805	3,850,980	6,240,126	10,091,106
Operating loss	(391,526)	(1,733,572)	(2,125,098)	(2,501,613)	(1,772,712)	(4,274,325)
Nonoperating revenues (expenses)	477,520	1,733,572	2,211,092	270,162	1,772,712	2,042,874
Total transfers	-	-	-	257,345	-	257,345
Change in net position	85,994	-	85,994	(1,974,106)	-	(1,974,106)
Beginning net position, as restated	1,955,768	-	1,955,768	1,974,106	-	1,974,106
Ending net position	$ 2,041,762	$ -	$ 2,041,762	$ -	$ -	$ -

NOTE 19. SUBSEQUENT EVENTS

The Authority terminated its Chicago office lease at Prudential Plaza on August 31, 2014, and entered into an intergovernmental agreement with the Illinois Commerce Commission, for temporary office space, on August 28, 2014. The agreement includes space located at 160 N. LaSalle Street, Suite C-800 in Chicago, Illinois 60601, in the Michael A. Bilandic Building (a State-owned facility). The Authority will reside in these accommodations until permanent space within the Bilandic Building or another State-owned facility is secured.

Upon defeasance of all the outstanding Illinois Rural Bond Bank Bonds on June 30, 2014 (and effective as of August 1, 2014), the Authority will become the bondholder of all 87 Local Government bond issues (with the 87 local bonds becoming, effectively, direct loans funded by the Authority). As a result of this defeasance, the contingent State of Illinois Moral Obligation Pledge will no longer represent a contingent liability of the State of Illinois.

In September 2014, the Illinois Finance Authority Development Fund NFP closed a $4.95 million subordinated loan, as a conduit pass-through (i.e., intermediary re-lender), from a loan capitalized by a New Markets Tax Credit allocation.

In October 2014, the Illinois Finance Authority Development Fund NFP submitted an application for an allocation of New Markets Tax Credits (NMTC). The U.S. Department of Treasury, Community Development Financial Institutions Fund reports that it will announce allocations for the October 2014 NMTC application round in spring 2015.

At its December 9, 2014, regularly-scheduled meeting, the Board of Directors of the Illinois Finance Authority ("Authority") considered the following agenda item, "Resolution Authorizing the Executive Director to Waive any Event of Default with Respect to $4,090,000 Original Aggregate Principal Amount of General Obligation Waterworks and Sewerage Revenue Bonds Issued by the Village of Thomson, Carroll County, Illinois, in 2000 and Owned by the Authority and Related Matters". Due to the defeasance of all Illinois Rural Bond Bank Bond issues, the Village of Thomson ("Village") Bond is currently an Authority-owned asset; effectively, an Authority-owned loan ("Thomson Bond"). Since the original issuance of the Thomson Bond in 2000, as part of a pooled issuance through the Illinois Rural Bond Bank ($5,145,000 Illinois Rural Bond Bank, Bond Bank Revenue Bonds, Series 2000-A, pages C-8 through C-10, issued on or about June 27, 2000) and subsequently refunded through the Illinois Finance Authority in 2006 as part of a pooled issuance ($11,505,000 Illinois Finance Authority, Bond Bank Revenue Bonds, Series 2006-A, pages B-25 through B-27, C-10), the Village had relied on a "State Share Payment," paid by the State of Illinois, Department of Corrections, that equaled approximately 67% of the principal and interest owed by the Village of Thomson on the Thomson Bond. It is the Authority's understanding that the Village issued the Thomson bond for the purpose of using those bond proceeds to finance waterworks and sewerage facilities primarily to support a State prison sited in and around the Village, as well as other uses. Following the sale of the State prison to the federal government in 2012 and the federal government's subsequent inability to bring the prison to full utilization in a timely manner, the State of Illinois, Department of Central Management Services voluntarily made "State Share Payments" (or reimbursements for such payments) on the Thomson Bond. In December 2014, it became apparent that the "State Share Payment" would not be forthcoming from the State for the February 1, 2015, payment owed by the Village on the Thomson Bond. Following a discussion among the Authority board members, the Authority staff was directed to prepare a forbearance agreement as to payments owed by the Village to the Authority on the Thomson bond as well as a waiver agreement on covenants in that bond which would be in effect until June 30, 2015. The Authority adopted a resolution to this effect and as authorized by this resolution, the Authority anticipates that such a forbearance and waiver agreement will be drafted and executed by the Authority and the Village in the coming weeks. It is further anticipated that the total principal and interest payment due to the Authority on February 1, 2015, in the amount of $249,539 (including the State Share Payment), will not be paid by the Village to the Authority until after June 30, 2015. The Authority's rationale is to allow time for the Governor-Elect and any future Authority leadership to understand the legacy situation with respect to the Thomson Bond and to develop a response to this situation.

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
(A Component Unit of the State of Illinois)
Combining Statement of Net Position-Nonmajor Funds
For the Year Ended June 30, 2014

	INDUSTRIAL REVENUE BOND INSURANCE FUND	CREDIT ENHANCEMENT FUND	ILLINOIS AGRICULTURAL LOAN GUARANTEE FUND	ILLINOIS FARMER AGRIBUSINESS LOAN GUARANTEE FUND	IRBB SPECIAL RESERVE FUND	RURAL DEVELOPMENT REVOLVING LOAN FUND	ILLINOIS HOUSING PARTNERSHIP PROGRAM FUND	RENEWABLE ENERGY DEVELOPMENT FUND	TOTAL NONMAJOR FUNDS
ASSETS									
Current assets:									
Current unrestricted assets:									
Cash and cash equivalents	$ 1,145,157	$ -	$ -	$ -	$115,744	$ -	$ 17,546	$ -	$ 1,278,447
Investments	2,994,396	-	-	-		-	813,975	-	3,808,371
Loans receivables, net	-	-	-	-	31,689	-	-	-	31,689
Accrued interest receivable	46,165	-	-	-	770	-	9,303	-	56,238
Due from other funds	-	-	-	-	19,126	-	-	-	19,126
Due from other local government agencies	-	-	-	-	-	-	3,000,000	-	3,000,000
Total current unrestricted assets	4,185,718	-	-	-	167,329	-	3,840,824	-	8,193,871
Current restricted assets:									
Cash and cash equivalents	-	-	-	-	-	1,904,228	-	75,860	1,980,088
Investments	-	-	-	-	-	-	-	336,438	336,438
Securities lending collateral equity with the State Treasurer	-	-	5,123,000	3,956,000	-	-	-	-	9,079,000
Accrued interest receivable	-	-	-	-	-	3,925	-	4,500	8,425
Loans receivables, net	-	-	-	-	-	19,752	-	94,337	114,089
Total current restricted assets	-	-	5,123,000	3,956,000	-	1,927,905	-	511,135	11,518,040
Total current assets	4,185,718	-	5,123,000	3,956,000	167,329	1,927,905	3,840,824	511,135	19,711,911
Noncurrent assets:									
Noncurrent unrestricted assets:									
Investments	7,510,063	-	-	-	-	-	992,750	-	8,502,813
Loans receivables, net	-	-	-	-	125,999	-	-	-	125,999
Total noncurrent unrestricted assets	7,510,063	-	-	-	125,999	-	992,750	-	8,628,812
Noncurrent restricted assets:									
Cash and cash equivalents	-	600,000	10,110,724	7,808,405	-	-	-	-	18,519,129
Investments	-	-	-	-	-	-	-	405,242	405,242
Accrued interest receivable	-	-	4,000	3,000	-	-	-	-	7,000
Loans receivables, net	-	-	-	-	-	193,671	-	1,302,261	1,495,932
Total noncurrent restricted assets	-	600,000	10,114,724	7,811,405	-	193,671	-	1,707,503	20,427,303
Total noncurrent assets	7,510,063	600,000	10,114,724	7,811,405	125,999	193,671	992,750	1,707,503	29,056,115
Total assets	11,695,781	600,000	15,237,724	11,767,405	293,328	2,121,576	4,833,574	2,218,638	48,768,026

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
(A Component Unit of the State of Illinois)
Combining Statement of Net Position-Nonmajor Funds (continued)
For the Year Ended June 30, 2014

	INDUSTRIAL REVENUE BOND INSURANCE FUND	CREDIT ENHANCEMENT FUND	ILLINOIS AGRICULTURAL LOAN GUARANTEE FUND	ILLINOIS FARMER AGRIBUSINESS LOAN GUARANTEE FUND	IRBB SPECIAL RESERVE FUND	RURAL DEVELOPMENT REVOLVING LOAN FUND	ILLINOIS HOUSING PARTNERSHIP PROGRAM FUND	RENEWABLE ENERGY DEVELOPMENT FUND	TOTAL NONMAJOR FUNDS
DEFERRED OUTFLOWS OF RESOURCES									
Net loss on debt refundings	-	-	-	-	-	-	-	-	-
Total deferred outflows of resources	-	-	-	-	-	-	-	-	-
Total assets and deferred outflows of resources	11,695,781	600,000	15,237,724	11,767,405	293,328	2,121,576	4,833,574	2,218,638	48,768,026
LIABILITIES									
Current liabilities:									
Payable from unrestricted current assets:									
Due to other funds	-	-	-	-	-	6,667	-	10,736	17,403
Total current liabilities payable from unrestricted current assets	-	-	-	-	-	6,667	-	10,736	17,403
Payable from restricted current assets:									
Obligation under securities lending of the State Treasurer	-	-	5,123,000	3,956,000	-	-	-	-	9,079,000
Accrued interest payable	-	-	-	-	-	2,435	-	-	2,435
Current portion of long term debt	-	-	-	-	-	59,390	-	-	59,390
Total current liabilities payable from restricted current assets	-	-	5,123,000	3,956,000	-	61,825	-	-	9,140,825
Total current liabilities	-	-	5,123,000	3,956,000	-	68,492	-	10,736	9,158,228
Noncurrent liabilities:									
Payable from restricted noncurrent assets:									
Noncurrent portion of long term debt	-	-	-	-	-	369,080	-	-	369,080
Total noncurrent liabilities payable from restricted noncurrent assets	-	-	-	-	-	369,080	-	-	369,080
Total noncurrent liabilities	-	-	-	-	-	369,080	-	-	369,080
Total liabilities	-	-	5,123,000	3,956,000	-	437,572	-	10,736	9,527,308
NET POSITION									
Restricted for:									
Agricultural and rural development loans	-	-	10,114,724	7,811,405	-	1,684,004	-	-	19,610,133
Renewable energy development	-	-	-	-	-	-	-	2,207,902	2,207,902
Credit enhancement	-	600,000	-	-	-	-	-	-	600,000
Unrestricted	11,695,781	-	-	-	293,328	-	4,833,574	-	16,822,683
Total net position	$11,695,781	$ 600,000	$ 10,114,724	$ 7,811,405	$293,328	$ 1,684,004	$ 4,833,574	$ 2,207,902	$39,240,718

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
(A Component Unit of the State of Illinois)
Combining Statement of Revenues, Expenses and Changes in Net Position-Nonmajor Funds
For the Year Ended June 30, 2014

	INDUSTRIAL REVENUE BOND INSURANCE FUND	CREDIT ENHANCEMENT FUND	ILLINOIS AGRICULTURAL LOAN GUARANTEE FUND	ILLINOIS FARMER AGRIBUSINESS LOAN GUARANTEE FUND	IRBB SPECIAL RESERVE FUND	RURAL DEVELOPMENT REVOLVING LOAN FUND	ILLINOIS HOUSING PARTNERSHIP PROGRAM FUND	RENEWABLE ENERGY DEVELOPMENT FUND	TOTAL NONMAJOR FUNDS
Operating revenues:									
Interest income - loans	$ -	$ -	$ -	$ -	$ 9,557	$ 13,333	$ -	$ 28,937	$ 51,827
Miscellaneous fees	-	-	-	-	-	107	-	-	107
Total operating revenue	-	-	-	-	9,557	13,440	-	28,937	51,934
Operating expenses:									
Professional services	1,091	-	-	-	177	6,667	214	29,927	38,076
Interest expense	-	-	-	-	-	4,418	-	-	4,418
Total operating expenses	1,091	-	-	-	177	11,085	214	29,927	42,494
Operating income (loss)	(1,091)	-	-	-	9,380	2,355	(214)	(990)	9,440
Nonoperating revenues (expenses):									
Interest and investment income	23,784	250	42,340	31,927	392	202	2,583	992	102,470
Other	-	-	-	-	-	1,146	-	-	1,146
Total nonoperating revenues (expenses)	23,784	250	42,340	31,927	392	1,348	2,583	992	103,616
Net income before transfers	22,693	250	42,340	31,927	9,772	3,703	2,369	2	113,056
Transfers:									
Transfers out to other funds	-	-	-	-	(2,640,948)	-	-	-	(2,640,948)
Total transfers in (out)	-	-	-	-	(2,640,948)	-	-	-	(2,640,948)
Change in net position	22,693	250	42,340	31,927	(2,631,176)	3,703	2,369	2	(2,527,892)
Net position - beginning of year, as restated (See Note 17)	11,673,088	599,750	10,072,384	7,779,478	2,924,504	1,680,301	4,831,205	2,207,900	41,768,610
Net position - end of year	$ 11,695,781	$ 600,000	$ 10,114,724	$ 7,811,405	$ 293,328	$ 1,684,004	$ 4,833,574	$ 2,207,902	$ 39,240,718

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, 2014

	INDUSTRIAL REVENUE BOND INSURANCE FUND	CREDIT ENHANCEMENT FUND	ILLINOIS AGRICULTURAL LOAN GUARANTEE FUND	ILLINOIS FARMER AGRIBUSINESS LOAN GUARANTEE FUND	IRBB SPECIAL RESERVE FUND	RURAL DEVELOPMENT REVOLVING LOAN FUND	ILLINOIS HOUSING PARTNERSHIP PROGRAM FUND	RENEWABLE ENERGY DEVELOPMENT FUND	TOTAL NONMAJOR FUNDS
Cash flows from operating activities:									
Cash received for fees and other	$ -	$ -	$ -	$ -	$ -	$ 107	$ -	$ -	$ 107
Cash payments to suppliers for goods and services	(1,091)	-	-	-	(177)	(6,667)	(214)	(29,927)	(38,076)
Net cash used in operating activities	(1,091)	-	-	-	(177)	(6,560)	(214)	(29,927)	(37,969)
Cash flows from noncapital financing activities:									
Bonds and notes principal payments	-	-	-	-	-	(58,802)	-	-	(58,802)
Interest payments	-	-	-	-	-	(4,872)	-	-	(4,872)
Due from other funds	-	-	-	-	(40,864)	(7,668)	-	(19,098)	(67,630)
Due to other funds	-	-	-	-	37,005	6,667	-	29,835	73,507
Transfers to other funds	-	-	-	-	(2,640,948)	-	-	-	(2,640,948)
Net cash provided by (used in) noncapital financing activities	-	-	-	-	(2,644,807)	(64,675)	-	10,737	(2,698,745)
Cash flows from investing activities:									
Purchase of investments	(13,181,812)	-	-	-	(3,865,058)	-	(2,691,936)	(1,143,344)	(20,882,150)
Sales and maturities of investments	2,622,002	-	-	-	3,844,847	-	872,487	396,200	7,735,536
Cash received on loan receivables and guarantees	-	-	-	-	30,362	19,095	-	92,471	141,928
Cash received for interest on loans	-	-	-	-	10,502	13,532	-	29,041	53,075
Interest and dividends on investments	32,970	250	41,340	31,927	20,602	199	6,004	2,032	135,324
Net cash provided by (used in) investing activities	(10,526,840)	250	41,340	31,927	41,255	32,826	(1,813,445)	(623,600)	(12,816,287)
Net increase (decrease) in cash and cash equivalents	(10,527,931)	250	41,340	31,927	(2,603,729)	(38,409)	(1,813,659)	(642,790)	(15,553,001)
Cash and cash equivalents - beginning of year	11,673,088	599,750	10,069,384	7,776,478	2,719,473	1,942,637	1,831,205	718,650	37,330,665
Cash and cash equivalents - end of year	1,145,157	600,000	10,110,724	7,808,405	115,744	1,904,228	17,546	75,860	21,777,664
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:									
Operating income (loss)	(1,091)	-	-	-	9,380	2,355	(214)	(990)	9,440
Adjustments to reconcile operating income (loss) to net cash used in operating activities:									
Interest on loans	-	-	-	-	(9,557)	(13,333)	-	(28,937)	(51,827)
Interest expense	-	-	-	-	-	4,418	-	-	4,418
Net cash used in operating activities	$ (1,091)	$ -	$ -	$ -	$ (177)	$ (6,560)	$ (214)	$ (29,927)	$ (37,969)

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

Board of Directors
Illinois Finance Authority

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the 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, 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, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the State of Illinois, Illinois Finance Authority's basic financial statements, and have issued our report thereon dated December 24, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the State of Illinois, Illinois Finance Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the State of Illinois, Illinois Finance Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

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

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deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings as item 2014-001 to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings as item 2014-002 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Illinois, Illinois Finance Authority's financial statements are free from 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 is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings as item 2014-001.

State of Illinois, Illinois Finance Authority's Response to Findings

The State of Illinois, Illinois Finance Authority's response to the finding identified in our audit is described in the accompanying schedule of findings. The State of Illinois, Illinois Finance Authority's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State of Illinois, Illinois Finance Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Illinois, Illinois Finance Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

E. C. Ortiz & Co. LLP

Chicago, Illinois
December 24, 2014

2014-001. **<u>FINDING</u>** (Inaccurate Major Fund Financial Statements for the Authority's Fire Truck Revolving Loan Fund and Ambulance Revolving Loan Fund)

The Illinois Finance Authority (Authority) did not prepare accurate major fund financial statements for the Authority's Fire Truck Revolving Loan Fund or the Ambulance Revolving Loan Fund (Authority's funds). These financial reporting problems, if not identified and corrected, would have resulted in a material misstatement of these two funds.

Prior to the implementation of Public Act 97-0901, the Authority was authorized to issue interest-free loans for the purchase of fire trucks and ambulances, based upon need determined by the Office of the State Fire Marshal (Fire Marshal), to both local governments and non-profit ambulance services. The Authority, however, was required to deposit all interest income and repayments of loans into the identically-named Fire Truck Revolving Loan Fund and the Ambulance Revolving Loan Fund within the State Treasury (State Treasury funds) controlled by the Fire Marshal. Further, the Authority was unable to make additional loans without receiving an appropriation from the General Assembly. For financial reporting purposes, the Authority was required to present a due to the State Treasury funds within the Authority's funds for the entire outstanding principal balance of loans and any interest receivable due from the local governments and non-profit ambulance services, because:

1) the original source of moneys to support the program was from the State;
2) all interest income and repayments of loans were required to be deposited into either one of the State Treasury funds; and,
3) the award of moneys to the Authority for issuing additional loans was subject to appropriation limitations within the State Treasury funds set by the General Assembly.

During the prior audit, the auditors noted Public Act 97-0901 was effective as of January 1, 2013. Public Act 97-0901 required the Authority and the Fire Marshal enter into an intergovernmental agreement to allow for the transfer of all moneys and future moneys on deposit within the State Treasury funds to the Authority's funds "as soon as practicable" after January 1, 2013. As of June 30, 2013, the auditors noted the Authority and Fire Marshal had not entered into an interagency agreement and the Authority did not disclose the impact of Public Act 97-0901 on the outstanding loan balance due to the Fire Marshal for deposit into the Authority's funds within the Authority's notes to its financial statements.

2014-001. **FINDING** (Inaccurate Major Fund Financial Statements for the Authority's Fire Truck Revolving Loan Fund and Ambulance Revolving Loan Fund (continued))

As a result, the auditors reported Finding 2013-003 noting the Authority had not entered into the required interagency agreement with the Fire Marshal and "did not disclose both the impact of failing to enter into the intergovernmental agreement or indicate any potential impact on the $19,042,264 due to the primary government from fire truck and ambulance loans when and if the Authority and Fire Marshal eventually enter into the required interagency agreement."

During the current audit, the Authority and Fire Marshal executed an interagency agreement on April 8, 2014. Upon execution pursuant to Public Act 97-0901, all moneys and future moneys within the State Treasury's funds became due to the Authority's funds.

After the implementation of Public Act 97-0901, the Authority was authorized to grant interest-free and interest-bearing loans for the purchase of fire trucks and ambulances, based upon need determined by the Fire Marshal, to both local governments and non-profit ambulance services. Additionally, the Authority was authorized by the General Assembly to make loans, outside of the annual appropriations process, from the Authority's funds. Finally, while the Authority was still required to deposit all interest income and repayments of loans into the State Treasury's funds pursuant to the Illinois Finance Authority Act (20 ILCS 3501/825-80(d) and 20 ILCS 3501/825-85(c), respectively), the Fire Marshal is required to immediately return the cash collections back to the Authority's funds pursuant to Public Act 97-0901.

Finally, the Illinois Vehicle Code (625 ILCS 5/16-104d) imposes an additional fee upon individuals convicted of serious traffic violations or driving under the influence, with $15 deposited into the State Treasury's funds by the State Treasurer from remittances collected by circuit clerks throughout the State. The State Treasurer collects and deposits these fees on a regular basis throughout the fiscal year. Pursuant to Public Act 97-0901, the Fire Marshal must disburse these moneys within the State Treasury's funds to the Authority's funds.

2014-001. **FINDING** (Inaccurate Major Fund Financial Statements for the Authority's Fire Truck Revolving Loan Fund and Ambulance Revolving Loan Fund (continued))

During testing, the auditors noted the following:

- For financial reporting purposes only, the Authority did not eliminate the \$17,052,813 and \$415,920 due to the primary government within the Authority's funds. As the principal and interest amounts collected from the local governments and non-profit entities will be retained by the Authority after briefly passing through the State Treasury only to be returned to the Authority, the Authority did not have a present obligation to sacrifice the resources represented by the loans and interest receivable from the local governments and non-profit entities to the State.

  Governmental Accounting Standards Board Statement No. 56, paragraph 4, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards,* states, "If the substance of a particular transaction is significantly different from its form because of the involvement of related parties, financial statements should recognize the substance of the transaction rather than merely its legal form." Concept Statement No. 4 of the Governmental Accounting Standards Board, *Elements of Financial Statements*, defines a liability in paragraph 17 as a present obligation to sacrifice resources the government has little or no discretion to avoid and defines an asset in paragraph 8 as resources the government presently controls with present service capacity.

- The Authority did not record \$14 thousand in cash on deposit and \$46 thousand in accounts receivable arising from fines collected by circuit clerks as due from the State Treasury's funds within the Authority's funds as of June 30, 2014.

2014-001. **FINDING** (Inaccurate Major Fund Financial Statements for the Authority's Fire Truck Revolving Loan Fund and Ambulance Revolving Loan Fund (continued))

Governmental Accounting Standards Board Statement No. 34, Paragraph 61, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, requires the Authority record revenue for resource flows between a primary government and component units. In addition, paragraph 92 requires the presentation of net position within proprietary fund financial statements under the accrual basis of accounting, where transactions are recorded upon occurrence, regardless of when cash is received or disbursed.

The auditors proposed adjusting entries to correct these financial reporting errors, which the Authority recorded in its financial statements.

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

Authority officials stated these errors were due to the Authority continuing to rely upon accounting guidance received from the Office of the State Comptroller in 2008. In the view of the Authority's management, the ambiguous language of Public Act 97-0901 did not trigger a consideration during ongoing discussions among the involved parties, including representatives from the Authority, Fire Marshal, Office of the State Comptroller, and external accounting contractors, that would distinguish "loans" as being entitled to a separate presentation from the broad interpretation of "moneys" and "funds" under Public Act 97-0901.

Failure to consider the full impact of changes within the Authority's regulatory environment for any potential impact on the proper reporting of the Authority's financial information could have, if not detected and corrected, resulted in a material misstatement of the Authority's financial statements, reducing the overall reliability of Statewide financial reporting. (Finding Code No. 2014-001, 2013-003)

2014-001. **FINDING** (Inaccurate Major Fund Financial Statements for the Authority's Fire Truck Revolving Loan Fund and Ambulance Revolving Loan Fund (continued))

RECOMMENDATION

We recommend the Authority enhance its procedures to review any changes to its regulatory environment for any potential impact on the Authority's financial reporting process.

AUTHORITY RESPONSE

The Authority thanks the Office of the Auditor General for its assistance and cooperation in both identifying this matter and for facilitating a favorable outcome. The Authority notes that it maintains proper internal control procedures to review changes to its regulatory environment for any potential impact on the Authority's financial reporting and has fully complied with these procedures in respect to this issue. While the Authority believes that a footnote, as an alternative to this finding, may also be an appropriate means to reach the correct substantive outcome, we accept this finding. The Authority's interpretation of the statutory change, in consultation with other State agencies and highly skilled external contractors, was not indicative of a change in presentation of the affected "*Due to Primary Government*" or interfund liability accounts and took prior appropriate action to adapt the changes to the cash collections as specifically required in the statute. The reversal of the 2008 Illinois Office of the Comptroller's written guidance to the Authority, in regards to this account, is the preferred financial reporting treatment by all parties.

2014-002. **FINDING** (Failure to Write-Off Uncollectible Balances from Non-Conduit Debt)

The Illinois Finance Authority (Authority) has loan and guarantee receivables from non-conduit debt recorded in the financial statements that should be removed due to the balance being uncollectible. In addition, the Authority has investments in partnerships and companies that should be removed due to the investments having no value.

During testing, the auditors noted the following amounts, by fund, where the Authority recorded a loan or guarantee receivable and corresponding allowance of 100%. The Authority anticipates writing off these balances.

General Operating Fund	$	969,795
E.D.A. Title IX Restricted Revolving Loan Fund		91,484
Industrial Revenue Bond Insurance Fund		28,402
Illinois Agricultural Loan Guarantee Fund		170,902
Illinois Farmer Agribusiness Loan Guarantee Fund		623,107
Total	$	1,883,690

Further, the auditors noted investments in partnerships and companies, totaling $2,971,385, for which a 100% allowance for a decline in the market value was recognized.

In accordance with generally accepted accounting principles, receivable balances that are uncollectible and investments that have no value should be written off and removed from the Authority's financial statements.

Authority officials stated most of the uncollectible accounts were inherited from the predecessor authorities and requests in prior years to the Office of the Attorney General to write-off these uncollectible accounts were denied. During Fiscal Year 2012, the Authority resubmitted its write-off request to the Attorney General. Currently, the Authority is working on putting together a new request to the Attorney General to write off the remaining investments in partnerships with no value.

2014-002. **FINDING** (Failure to Write-Off Uncollectible Balances from Non-Conduit Debt (continued))

The significant effect of not writing off receivable and investment balances and the corresponding allowance for doubtful accounts and allowance for decline in market value of investments results in overstatements of these balances in the Authority's financial statements. (Finding Code No. 2014-002, 2013-004)

RECOMMENDATION

We recommend the Authority continue to work with the Office of the Attorney General to receive approval to write-off uncollectible balances.

AUTHORITY RESPONSE

The Authority accepts this finding.

The Authority has consistently complied with the current and previous recommendations to continue to work with the Office of the Attorney General to receive approval to write-off uncollectible balances. The amounts at issue were inherited from predecessor agencies and the Authority has already fully written off the respective uncollectible accounts for financial reporting purposes. As such, the receivable and investment balances are not overstated on the Authority's financial statements.

The Authority further notes that it is a body politic and corporate of the State of Illinois, a creature of statute. The legal authority to formally and legally write-off an uncollectible balances due to a State agency rests solely with the Office of the Attorney General, an Illinois constitutional office elected by the people of Illinois. Though considerable progress has been made recently in receiving this approval, the Authority will continue to work with the Office of the Attorney General and Auditor General in order to resolve this finding completely.

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
(A Component Unit of the State of Illinois)
SCHEDULE OF FINDINGS
June 30, 2014

PRIOR FINDING NOT REPEATED

A. **FINDING** (Inadequate Monitoring of Borrower Compliance)

During the prior audit, the Illinois Finance Authority (Authority) did not have adequate internal controls to properly monitor borrower covenant compliance for bonds and loan agreements reported on the face of the Authority's basic financial statements. (Finding No. 2013-001, 12-1)

Status: Not Repeated

During the current engagement, the auditors' sample testing indicated significant improvement in the Authority's monitoring of borrower compliance with bond covenants.

B. **FINDING** (Inadequate Financial Reporting Controls)

During the prior audit, the Illinois Finance Authority (Authority) did not exercise adequate internal control over financial reporting by failing to adequately monitor subsequent event transactions occurring at a primary government agency for any potential impact on the Authority's financial statements. (Finding No. 2013-002)

Status: Implemented

During the current engagement, the auditors noted increased communication between the Authority and other State agencies and component units to identify and assess the impact of events at those entities impacting the Authority's financial reporting process.