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# REPORT DIGEST

## ILLINOIS FINANCE AUTHORITY

### FINANCIAL AUDIT For the Year Ended: June 30, 2009

#### Summary of Findings:

Total this year	1
Total last year	2
Repeated from last year	0

Release Date:  
March 3, 2010



State of Illinois  
Office of the Auditor General  
**WILLIAM G. HOLLAND**  
AUDITOR GENERAL

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## INTRODUCTION

This digest covers our financial audit of the Illinois Finance Authority for the year ended June 30, 2009. A State and Federal compliance examination covering the year ended June 30, 2009 will be issued separately.

## SYNOPSIS

- ◆ The Authority has not had an independent valuation of its venture capital investments since fiscal year 2006.

{Revenue, Expenditures and Activity Measures are summarized on the next page.}

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**ILLINOIS FINANCE AUTHORITY**  
**FINANCIAL AUDIT**  
**YEAR ENDED JUNE 30, 2009**

<b>STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS</b>	<b>For The Year Ended June 30, 2009</b>	<b>For The Year Ended June 30, 2008</b>
<b>Operating revenues:</b>		
Interest on loans .....	\$10,941,522	\$10,121,129
Administrative service fees .....	4,885,211	7,140,725
Annual fees .....	761,197	1,128,340
Other operating revenue .....	<u>231,856</u>	<u>359,393</u>
Total operating revenues .....	<u>\$16,819,786</u>	<u>\$18,749,587</u>
<b>Operating expenses:</b>		
Interest expense .....	\$14,457,696	\$15,401,759
Employee related expenses .....	3,275,386	3,444,591
Professional services .....	1,284,861	1,837,280
Other operating expense .....	<u>1,381,421</u>	<u>1,176,130</u>
Total operating expenses .....	<u>\$20,399,364</u>	<u>\$21,859,760</u>
Operating income .....	<u>\$(3,579,578)</u>	<u>\$(3,110,173)</u>
<b>Nonoperating revenues (expenses):</b>		
Interest and investment income .....	\$5,878,031	\$8,942,648
Net appreciation (depreciation) in the fair value of investments .....	286,945	(54,213)
Grants .....	-	2,000,000
Transfers from (to) primary government .....	<u>(26,329,923)</u>	<u>13,000,000</u>
Total nonoperating revenues (expenses), net .....	<u>(20,164,947)</u>	<u>23,888,435</u>
<b>Change in net assets</b> .....	<b>\$(23,744,525)</b>	<b>\$20,778,262</b>
Net assets – beginning of year .....	<u>\$112,817,493</u>	<u>\$92,039,231</u>
<b>Net assets – end of year</b> .....	<u>89,072,968</u>	<u>112,817,493</u>
<b>Selected Statement of Net Asset Accounts</b>		
• Cash and investments .....	\$188,852,629	\$211,846,209
• Receivables, net .....	\$234,716,760	\$239,244,933
• Bonds payable and long-term debt .....	\$301,789,773	\$324,327,855
• Net assets .....	\$89,072,968	\$112,817,493
<b>AGENCY EXECUTIVE DIRECTOR</b>		
During Audit Period: Kym Hubbard (7/1/08-7/15/08); Mr. John Filan (11/17/08-6/30/09) Currently: Mr. Christopher Meister		

## INTRODUCTION

The mission of the Authority is to foster economic development to the public and private institutions that create and retain jobs, and improve the quality of life in Illinois by providing access to capital.

## FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

### **FAILURE TO HAVE AN INDEPENDENT VALUATION OF VENTURE CAPITAL INVESTMENTS**

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**Authority has not had an independent valuation of its venture capital investments since 2006**

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The Authority has not had an independent valuation of its venture capital investments since fiscal year 2006.

The Authority maintained a portfolio of the venture capital investments valued at \$5.4 million as of June 30, 2009. Venture capital investments are not a readily marketable investment.

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**Authority should develop a process for determining the fair value measurements and disclosures**

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As part of fulfilling its responsibility of making the fair value measurements and disclosures included in the financial statements, management should establish an accounting and financial reporting process for determining the fair value measurements and disclosures, select valuation methods, identify and adequately support any significant assumptions used and prepare the valuation.

Authority management indicated that due to budget constraints, the cost benefit analysis of engaging an independent firm's valuation was contemplated during fiscal year 2009; however, a valuation was not performed. (Finding 1, page 43)

We recommended the Authority obtain an independent valuation of the venture capital investment portfolio periodically in order to support the amounts recorded and disclosed in the Authority's financial statements. .

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**Authority agrees with auditors**

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Authority officials accepted our recommendation and indicated they have begun the solicitation process to procure an independent firm's valuation services. The Authority

expects the procurement and execution of the services to be finalized by June 30, 2010.

**AUDITORS' OPINION**

The auditors stated the financial statements for the Illinois Finance Authority for the year ended June 30, 2009 were fairly stated in all material respects.

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WILLIAM G. HOLLAND, Auditor General

WGH:JAF:pp

**SPECIAL ASSISTANT AUDITORS**

McGladrey & Pullen, LLP were our special assistant auditors for this engagement.