



STATE OF ILLINOIS  
**OFFICE OF THE  
AUDITOR GENERAL**

William G. Holland, Auditor General

**SUMMARY REPORT DIGEST**

**ILLINOIS FINANCE AUTHORITY**

**FINANCIAL AUDIT**

**For the One Year Ended June 30, 2012**

**Release Date: December 20, 2012**

**Summary of Findings:**

**Total this audit: 2**

**Total last audit: 0**

**Repeated from last audit: 0**

**INTRODUCTION**

This digest covers the Illinois Finance Authority's Financial Audit as of and for the year ended June 30, 2012. The Illinois Finance Authority's Compliance Examination (including the Single Audit) covering the year ended June 30, 2012 will be issued at a later date.

**SYNOPSIS**

- The Authority did not have adequate internal controls to properly maintain records for monitoring covenant compliance for bonds or loan agreements reported on the face of the Authority's basic financial statements.
- The Authority did not exercise adequate internal control over financial reporting.

{Expenditures and Activity Measures are summarized on the reverse page.}

**ILLINOIS FINANCE AUTHORITY**  
**FINANCIAL AUDIT**  
For The Year Ended June 30, 2012

<b>STATEMENT OF NET ASSETS</b>		
(in thousands)	2012	2011
<b>Assets</b>		
Cash and cash equivalents.....	\$ 58,710	\$ 47,043
Restricted cash and cash equivalents.....	63,266	33,829
Investments.....	85	2,333
Restricted investments.....	60,554	91,204
Receivables.....	9,723	17,589
Restricted receivables.....	150,212	177,436
Other.....	10,879	7,628
Total.....	<u>\$ 353,429</u>	<u>\$ 377,062</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities.....	\$ 5,410	\$ 5,264
Bonds payable.....	223,441	249,997
Due to primary government.....	17,146	18,937
Other.....	14,413	11,880
Total.....	<u>\$ 260,410</u>	<u>\$ 286,078</u>
<b>Net Assets</b>		
Invested in capital assets.....	\$ 108	\$ 113
Restricted.....	25,890	24,736
Unrestricted.....	67,021	66,135
Total.....	<u>\$ 93,019</u>	<u>\$ 90,984</u>
<b>REVENUES, EXPENSES, AND CHANGES IN NET ASSETS</b>		
(in thousands)	2012	2011
<b>Revenues</b>		
Interest on loans.....	\$ 9,243	\$ 8,778
Interest and investment income.....	2,595	4,767
Administrative service fees.....	2,766	4,736
Gain (loss) on sale of of investments.....	(2,075)	872
Other.....	6,045	1,034
Total.....	<u>\$ 18,574</u>	<u>\$ 20,187</u>
<b>Expenses</b>		
Interest expense.....	\$ 11,058	\$ 12,319
Employee related expenses.....	1,790	2,079
Professional services.....	1,447	1,376
Other.....	2,244	1,671
Total.....	<u>\$ 16,539</u>	<u>\$ 17,445</u>
Change in net assets.....	<u>\$ 2,035</u>	<u>\$ 2,742</u>
<b>EXECUTIVE DIRECTOR</b>		
During Audit Period: Mr. Christopher B. Meister		
Currently: Mr. Christopher B. Meister		

## FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

### **NEED TO IMPROVE COVENANT COMPLIANCE MONITORING**

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

**Authority was unable to provide evidence of monitoring borrower compliance with significant loan or bond covenants**

During testing, the auditors noted the Authority could not provide documentation filed by borrowers or present evidence of the Authority's monitoring of borrower compliance with 16 of 39 (41%) significant covenants tested, affecting 22 loan agreements or revenue bonds reported on the face of the Authority's basic financial statements. The noted significant covenants included continuing disclosure requirements, such as providing financial reports, ratio calculations, compliance certifications, and insurance coverage documentation; however, the noted significant covenants did not include monitoring of actual principal and interest payments required under the tested bond or loan agreements.

According to Authority management, the Authority does not have a records management system capable of identifying where specific records are retained within the Authority's files. (Finding 1, pages 65-66)

**Authority officials agree with auditors**

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

Authority officials agreed with our finding and recommendation.

### **NEED TO IMPROVE CONTROLS OVER FINANCIAL REPORTING**

**Authority did not develop a basis or prepare any calculations for a liability accrual of \$1,000,030**

The Authority did not exercise adequate internal control over financial reporting.

During testing, the auditors noted the following:

- The Authority did not develop a basis or prepare

**Authority failed to accrue interest income of \$388,909 to the proper accounting period**

any calculations for the estimated arbitrage liability accrual of \$1,000,030 within the debt service fund of the State of Illinois Revolving Fund, Series 2004 (Clean Water) issuance under the Internal Revenue Service's Publication 4079, *Tax Exempt Governmental Bonds Compliance Guide*.

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

According to Authority management, the Authority recorded the liability accrual based upon a conversation between the Authority, the borrower, bond counsel, and the bond trustee concerning the potential for a higher arbitrage tax liability. Further, Authority management stated the interest income was not accrued due to staff oversight. (Finding 2, pages 67-68)

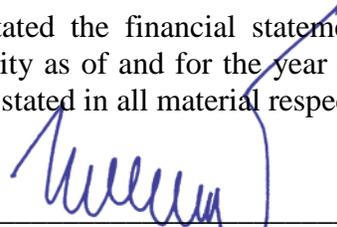
We recommended the Authority document the calculation of estimated arbitrage liability based upon an accumulation of relevant, sufficient, and reliable data and properly record interest accruals.

**Authority officials agree**

The Authority officials agreed with our finding and recommendation.

**AUDITORS' OPINION**

Our auditors stated the financial statements of Illinois Finance Authority as of and for the year ended June 30, 2012, are fairly stated in all material respects.



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WILLIAM G. HOLLAND  
Auditor General

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**SPECIAL ASSISTANT AUDITORS**

Our special assistant auditors for this audit were E.C. Ortiz and Company, LLP.