

State of Illinois
Illinois Grain Insurance Corporation
(A Component Unit of the State of Illinois)

Financial Audit and Compliance Examination

For the Years Ended June 30, 2009 and 2008

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

State of Illinois
Illinois Grain Insurance Corporation
(A Component Unit of the State of Illinois)

Financial Audit and Compliance Examination
For the Years Ended June 30, 2009 and 2008

Table of Contents

	<u>Page</u>
Agency Officials	1
Management Assertion Letter	2
Compliance Report	
Summary	4
Accountants' Reports	
Independent Accountants' Report on State Compliance, on Internal Control Over Compliance, and on Supplementary Information for State Compliance Purposes	6
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	9
Schedule of Findings	
Current Findings - State Compliance	11
Prior Findings Not Repeated – <i>Government Auditing Standards</i>	13
Financial Statement Report	
Summary	14
Independent Auditors' Report	15
Basic Financial Statements	
<u>June 30, 2009</u>	
Statement of Net Assets	17
Statement of Revenues, Expenses and Changes in Net Assets	18
Statement of Cash Flows	19
<u>June 30, 2008</u>	
Statement of Net Assets	20
Statement of Revenues, Expenses and Changes in Net Assets	21
Statement of Cash Flows	22
Notes to the Basic Financial Statements	23

State of Illinois
Illinois Grain Insurance Corporation
(A Component Unit of the State of Illinois)

Financial Audit and Compliance Examination
For the Years Ended June 30, 2009 and 2008

Table of Contents

	<u>Page</u>
Supplementary Information for State Compliance Purposes	
Summary	28
Fiscal Schedules and Analysis	
Introduction	29
Comparative Schedule of Revenues	30
Explanation of Significant Variations in Expenses	31
Explanation of Significant Variations in Revenues	32
Analysis of Accounts Receivable	34
Analysis of Operations	
Agency Functions and Planning Program	35
Schedule of Grain Dealers and Grain Warehouses (Unaudited)	36

State of Illinois
Illinois Grain Insurance Corporation
(A Component Unit of the State of Illinois)

Financial Audit and Compliance Examination
For the Years Ended June 30, 2009 and 2008

Agency Officials

Board of Directors at June 30, 2009

President - Thomas E. Jennings, Director of the Department of Agriculture

Secretary - Karen McNaught, Designee of Attorney General

Treasurer - Ed Buckles, Designee of State Treasurer

Director - Keith A. Fanning, Designee of Department of Financial and Professional Regulation

Director - Laura A. Lanterman, Chief Fiscal Officer of the Department of Agriculture

The Illinois Department of Agriculture provided the personnel necessary to operate the Illinois Grain Insurance Corporation.

Agency offices are located at:

Illinois Department of Agriculture
State Fairgrounds
801 East Sangamon Avenue
Springfield, Illinois 62702

March 30, 2010

McGladrey & Pullen, LLP
Certified Public Accountants
20 North Martingale Road, Suite 500
Schaumburg, Illinois 60173

Ladies and Gentlemen:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the State of Illinois, Illinois Grain Insurance Corporation (Corporation), a component unit of the State of Illinois. We are responsible for and we have established and maintained an effective system of, internal controls over compliance requirements. We have performed an evaluation of the Corporation's compliance with the following assertions during the two-year period ended June 30, 2009. Based on this evaluation, we assert that during the years ended June 30, 2009 and June 30, 2008, the Corporation has materially complied with the assertions below.

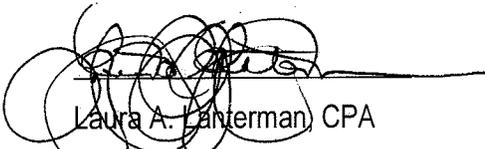
- A. The Corporation has obligated, expended, received and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The Corporation has obligated, expended, received and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The Corporation has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. The State revenues and receipts collected by the Corporation are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.
- E. The money or negotiable securities or similar assets handled by the Corporation on behalf of the State or held in trust by the Corporation have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

Yours very truly,



Thomas E. Jennings

President, Illinois Grain Insurance Corporation



Laura A. Lanterman CPA

Chief Fiscal Officer, Illinois Department of Agriculture

State of Illinois
 Illinois Grain Insurance Corporation
 (A Component Unit of the State of Illinois)

Financial Audit and Compliance Examination
 For the Years Ended June 30, 2009 and 2008

COMPLIANCE REPORT

SUMMARY

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

ACCOUNTANTS' REPORTS

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

SUMMARY OF FINDINGS

<u>Number of</u>	<u>Current Report</u>	<u>Prior Report</u>
Findings	2	2
Repeated findings	1	2
Prior recommendations implemented or not repeated	1	1

Details of findings are presented in a separately tabbed report section.

SCHEDULE OF FINDINGS

<u>Item No.</u>	<u>Page</u>	<u>Description</u>	<u>Finding Type</u>
Findings (Government Auditing Standards)			
No matters reported.			
<u>Item No.</u>	<u>Page</u>	<u>Description</u>	<u>Finding Type</u>
Findings (State Compliance)			
09-1	11	Grain Insurance Reserve Fund Not Funded	Noncompliance and Significant Deficiency
09-2	12	Failure to File Agency Fee Imposition Report	Noncompliance and Significant Deficiency
<u>Item No.</u>	<u>Page</u>	<u>Description</u>	<u>Finding Type</u>
Prior Findings Not Repeated (Government Auditing Standards)			
A	13	Financial Statements Not Prepared in Accordance with Generally Accepted Accounting Principles	

State of Illinois
Illinois Grain Insurance Corporation
(A Component Unit of the State of Illinois)

Financial Audit and Compliance Examination
For the Years Ended June 30, 2009 and 2008

COMPLIANCE REPORT - Continued

EXIT CONFERENCE

The Corporation waived an exit conference in correspondence dated December 15, 2009. Responses to the recommendations were provided by Laura Lanterman in correspondence dated December 30, 2009.

McGladrey & Pullen

Certified Public Accountants

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

Honorable William G. Holland
Auditor General
State of Illinois, and

Mr. Thomas E. Jennings
President of the Board of Directors
Illinois Grain Insurance Corporation

Compliance

As Special Assistant Auditors for the Auditor General, we have examined the State of Illinois, Illinois Grain Insurance Corporation's (a component unit of the State of Illinois) (Corporation) compliance with the requirements listed below, as more fully described in the Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide) as adopted by the Auditor General, during the years ended June 30, 2009 and June 30, 2008. The management of the Corporation is responsible for compliance with these requirements. Our responsibility is to express an opinion on the Corporation's compliance based on our examination.

- A. The Corporation has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The Corporation has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The Corporation has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. State revenues and receipts collected by the Corporation are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.
- E. Money or negotiable securities or similar assets handled by the Corporation on behalf of the State or held in trust by the Corporation have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

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

In our opinion, the Corporation complied, in all material respects, with the requirements listed in the first paragraph of this report during the years ended June 30, 2009 and June 30, 2008. However, the results of our procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of findings as findings 09-1 and 09-2.

Internal Control

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

A *deficiency* in an entity's internal control over compliance 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 noncompliance with the requirements listed in the first paragraph of this report on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a requirement listed in the first paragraph of this report will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance described in findings 09-1 and 09-2 in the accompanying schedule of findings that we consider to be significant deficiencies in internal control over compliance. A *significant deficiency* is a deficiency, or 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.

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

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

Supplementary Information for State Compliance Purposes

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the Corporation as of and for the years ended June 30, 2009 and June 30, 2008, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated March 30, 2010. The accompanying supplementary information, as listed in the table of contents as Supplementary Information for State Compliance Purposes, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Corporation. The 2009 and 2008 Supplementary Information for State Compliance Purposes, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements for the years ended June 30, 2009 and June 30, 2008, taken as a whole.

We have also previously audited, in accordance with auditing standards generally accepted in the United States, the Corporation's basic financial statements for the years ended June 30, 2007 and June 30, 2006. In our report dated March 26, 2008, we expressed an unqualified opinion on the respective financial statements of the governmental activities and the major fund. In our opinion, the 2007 and 2006 Supplementary Information for State Compliance Purposes, except for the portion marked "unaudited," is fairly stated in all material respects in relation to the basic financial statements for the years ended June 30, 2007 and June 30, 2006, taken as a whole.

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

McGladrey & Pullen, LLP

Schaumburg, Illinois
March 30, 2010

McGladrey & Pullen

Certified Public Accountants

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

Mr. Thomas E. Jennings
President of the Board of Directors
Illinois Grain Insurance Corporation

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the State of Illinois, Illinois Grain Insurance Corporation (a component unit of the State of Illinois) (Corporation), as of and for the years ended June 30, 2009 and June 30, 2008, which collectively comprise the Corporation's basic financial statements and have issued our report thereon dated March 30, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.

A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

McGladrey & Pullen, LLP

Schaumburg, Illinois
March 30, 2010

State of Illinois
Illinois Grain Insurance Corporation
(A Component Unit of the State of Illinois)

Financial Audit and Compliance Examination
For the Years Ended June 30, 2009 and 2008

Current Findings – State Compliance

09-1 Finding: Grain Insurance Reserve Fund Not Funded

The Illinois Grain Insurance Corporation did not fund the \$2,000,000 Grain Insurance Reserve Fund as required by the Grain Code.

On April 5, 2005 the Corporation remitted the \$4,000,000 balance due to the General Revenue Fund that was borrowed prior to June 30, 2003. As of the end of our examination fieldwork on October 31, 2009, the Corporation had not established the \$2,000,000 Grain Insurance Reserve Fund required by the Grain Code.

The Grain Code (240 ILCS 40/30-25) states, "Upon payment in full of all money that has been transferred to the (Grain Insurance) Fund prior to June 30, 2003 from the General Revenue Fund...the State of Illinois shall remit \$2,000,000 to the Corporation to be held in a separate and discrete account to be used to the extent the assets in the (Grain Insurance) Fund are insufficient to satisfy claimants as payment of their claims become due..." "The remittance of the \$2,000,000 reserve shall be made to the (Illinois Grain) Corporation within 60 days of payment in full of all the money transferred to the (Grain Insurance) Fund as set forth above in this Section 30-25."

The Corporation's management indicated the Grain Insurance Reserve Fund was not funded because the funds were not appropriated. Management also indicated that they did not request an appropriation in fiscal years 2008 and 2009 because of budgetary constraints on the General Revenue Fund.

Failure to establish the Grain Insurance Reserve Fund decreases the insurance reserves the legislature mandated by State law to further insure grain farmers from the potential losses of failed grain warehouses and dealers. (Finding Code No. 09-1, 07-2, 05-2)

Recommendation:

We recommend the Corporation comply with the law by working with the Office of Management and Budget to obtain the necessary appropriation to fund the Grain Insurance Reserve Fund or seek legislative relief from the statutory requirement.

Agency Response:

The Agency agrees with the finding and will attempt to obtain appropriation to fund the Grain Insurance Reserve Fund.

State of Illinois
Illinois Grain Insurance Corporation
(A Component Unit of the State of Illinois)

Financial Audit and Compliance Examination
For the Years Ended June 30, 2009 and 2008

Current Findings – State Compliance

09-2 Finding: Failure to File Agency Fee Imposition Report

The Illinois Grain Insurance Corporation did not file the annual Agency Fee Imposition Report (Report) with the Office of the Comptroller (Comptroller) as required by the State Comptroller Act.

During our examination, we noted the Corporation did not file the Reports with the Comptroller's office by August 1 for the fiscal years ended June 30, 2008 or June 30, 2009.

The State Comptroller Act (15 ILCS 405/16.2) requires those State agencies that impose fees to file the Agency Fee Imposition Report. The Statewide Accounting and Management System (SAMS) Manual (Procedure 33.16.20) defines fees, in relation to the Report, as all charges by State agencies to citizens and private organizations, and also states that the Report is due by August 1 of each year.

The Corporation's management indicated that failure to file the report was an oversight.

Failure to file the Agency Fee Imposition Report to the Comptroller prevents the Comptroller from reporting complete and accurate fee information to the General Assembly. (Finding Code No. 09-2)

Recommendation:

We recommend the Corporation file the Agency Fee Imposition Report with the Comptroller by August 1 each year.

Agency Response:

The Agency agrees with the finding and will file the Agency Fee Imposition Report with the Comptroller by August 1 each year.

State of Illinois
Illinois Grain Insurance Corporation
(A Component Unit of the State of Illinois)

Financial Audit and Compliance Examination
For the Years Ended June 30, 2009 and 2008

Prior Finding Not Repeated – *Government Auditing Standards*

A. Finding: Financial Statements Not Prepared in Accordance with Generally Accepted Accounting Principles

The Illinois Grain Insurance Corporation (Corporation) did not prepare its financial statements in accordance with generally accepted accounting principles. We noted the Corporation overstated its beginning fund balance and understated its Charges for Services by \$447,000 for the year ended June 30, 2006.

During the current audit period, we noted that the Corporation prepared its draft financial statements in all material respects in accordance with generally accepted accounting principles.

Status: Implemented (Finding Code No. 07-1)

State of Illinois
Illinois Grain Insurance Corporation
(A Component Unit of the State of Illinois)

Financial Audit and Compliance Examination
For the Years Ended June 30, 2009 and 2008

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying financial statements of the State of Illinois, Illinois Grain Insurance Corporation (a component unit of the State of Illinois) was performed by McGladrey & Pullen, LLP.

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

McGladrey & Pullen

Certified Public Accountants

Independent Auditors' Report

Honorable William G. Holland
Auditor General
State of Illinois, and

Mr. Thomas E. Jennings
President of the Board of Directors
Illinois Grain Insurance Corporation

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the State of Illinois, Illinois Grain Insurance Corporation (a component unit of the State of Illinois) (Corporation), as of and for the years ended June 30, 2009 and June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Corporation, as of June 30, 2009 and June 30, 2008, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Corporation has not presented a management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 30, 2010, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

McGladrey & Pullen, LLP

Schaumburg, Illinois
March 30, 2010

State of Illinois
Illinois Grain Insurance Corporation
(A Component Unit of the State of Illinois)

Financial Audit and Compliance Examination
For the Years Ended June 30, 2009 and 2008

STATEMENT OF NET ASSETS
JUNE 30, 2009
(Expressed in Thousands)

Assets:

Cash and Cash Equivalents	\$	5,264
Other Receivables		968
Due from Primary Government		26
		<hr/>

Total Assets	\$	6,258
		<hr/> <hr/>

Net Assets:

Restricted for Environmental and Business Regulation	\$	6,258
		<hr/> <hr/>

The accompanying notes to the financial statements are an integral part of this statement.

State of Illinois
Illinois Grain Insurance Corporation
(A Component Unit of the State of Illinois)

Financial Audit and Compliance Examination
For the Years Ended June 30, 2009 and 2008

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2009
(Expressed in Thousands)

Operating Revenues:	
Charges for Services	\$ 1,568
Total Operating Revenues	<u>1,568</u>
Operating Expenses:	
Environmental and Business Regulation	<u>35</u>
Operating Income	<u>1,533</u>
Nonoperating Revenues:	
On Behalf Contribution	13
Interest and Investment Income	<u>47</u>
Total Nonoperating Revenues	<u>60</u>
Change in Net Assets	1,593
Net Assets, July 1, 2008	<u>4,665</u>
Net Assets, June 30, 2009	<u><u>\$ 6,258</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

State of Illinois
 Illinois Grain Insurance Corporation
 (A Component Unit of the State of Illinois)

Financial Audit and Compliance Examination
 For the Years Ended June 30, 2009 and 2008

STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2009
 (Expressed in Thousands)

Cash flows from operating activities:	
Cash received for fees and other	\$ 983
Cash payments to suppliers for goods and services	(957)
Net cash provided by operating activities	<u>26</u>
Cash flows from noncapital financing activities:	
On behalf contribution	13
Net cash provided by noncapital financing activities	<u>13</u>
Cash flows from investing activities:	
Interest and dividends on investments	47
Net cash provided by investing activities	<u>47</u>
Net increase in cash and cash equivalents	86
Cash and cash equivalents at beginning of year	<u>5,178</u>
Cash and cash equivalents at end of year	<u>\$ 5,264</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 1,533
Adjustments to reconcile operating income to net cash provided by operating activities:	
Changes in assets and liabilities:	
Accounts receivable	(594)
Due from Primary Government	22
Accounts payable and accrued expenses	(935)
	<u>\$ 26</u>

The accompanying notes to the financial statements are an integral part of this statement.

State of Illinois
Illinois Grain Insurance Corporation
(A Component Unit of the State of Illinois)

Financial Audit and Compliance Examination
For the Years Ended June 30, 2009 and 2008

STATEMENT OF NET ASSETS
JUNE 30, 2008
(Expressed in Thousands)

Assets:	
Cash and Cash Equivalents	\$ 5,178
Other Receivables	374
Due from Primary Government	48
	<hr/>
Total Assets	\$ 5,600
	<hr/> <hr/>
Liabilities:	
Due to Primary Government	935
Total Liabilities	935
	<hr/> <hr/>
Net Assets:	
Restricted for Environmental and Business Regulation	\$ 4,665
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The accompanying notes to the financial statements are an integral part of this statement.

State of Illinois
Illinois Grain Insurance Corporation
(A Component Unit of the State of Illinois)

Financial Audit and Compliance Examination
For the Years Ended June 30, 2009 and 2008

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2008
(Expressed in Thousands)

Operating Revenues:	
Charges for Services	\$ 1,457
Total Operating Revenues	<u>1,457</u>
Operating Expenses:	
Environmental and Business Regulation	<u>3,727</u>
Operating Loss	<u>(2,270)</u>
Nonoperating Revenues:	
On Behalf Contribution	13
Interest and Investment Income	<u>237</u>
Total Nonoperating Revenues	<u>250</u>
Change in Net Assets	(2,020)
Net Assets, July 1, 2007	<u>6,685</u>
Net Assets, June 30, 2008	<u>\$ 4,665</u>

The accompanying notes to the financial statements are an integral part of this statement.

State of Illinois
 Illinois Grain Insurance Corporation
 (A Component Unit of the State of Illinois)

Financial Audit and Compliance Examination
 For the Years Ended June 30, 2009 and 2008

STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2008
 (Expressed in Thousands)

Cash flows from operating activities:	
Cash received for fees and other	\$ 1,074
Cash payments to suppliers for goods and services	(2,779)
Net cash used in operating activities	<u>(1,705)</u>
Cash flows from noncapital financing activities:	
On behalf contribution	13
Net cash provided by noncapital financing activities	<u>13</u>
Cash flows from investing activities:	
Interest and dividends on investments	237
Net cash provided by investing activities	<u>237</u>
Net decrease in cash and cash equivalents	(1,455)
Cash and cash equivalents at beginning of year	<u>6,633</u>
Cash and cash equivalents at end of year	<u><u>\$ 5,178</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (2,270)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Changes in assets and liabilities:	
Accounts receivable	(370)
Accounts payable and accrued expenses	935
Net cash used in operating activities	<u><u>\$ (1,705)</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

State of Illinois
Illinois Grain Insurance Corporation
(A Component Unit of the State of Illinois)

Financial Audit and Compliance Examination
For the Years Ended June 30, 2009 and 2008

Notes to the Financial Statements

Note 1. Organization:

The Illinois Grain Insurance Corporation (Corporation) was established by the Illinois Grain Code (Grain Code) (240 ILCS 40/1 et seq.) as a political subdivision, body politic and municipal corporation. The primary functions of the Corporation are specified in the Grain Code.

Note 2. Summary of Significant Accounting Policies:

The accounting policies of the Corporation conform to accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The following is a summary of the significant accounting policies:

a. The Reporting Entity

The Illinois Grain Insurance Corporation is a discretely presented component unit of the State of Illinois financial reporting entity. The Governmental Accounting Standards Board (GASB) has adopted Statement No. 14, as amended entitled "The Financial Reporting Entity", (GASB Statement 14) which establishes standards for defining and reporting on the financial reporting entity. The requirements of the statement apply at all levels to all state and local governments. Using the guidance provided in GASB Statement 14 regarding a) the definition of the component unit and b) financial accountability, there are no other state agencies, boards or commissions which were required to be included in the financial reporting entity of the Illinois Grain Insurance Corporation.

b. Basis of Presentation

The accompanying financial statements of the Illinois Grain Insurance Corporation have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed in pronouncements of the Governmental Accounting Standards Board ("GASB"). The financial activities of the Corporation are reported as a discretely presented component unit in the State of Illinois' Comprehensive Annual Financial report.

The statement of net assets, statement of revenues, expenses and changes in net assets, and statement of cash flows report the overall financial activity of the Corporation. The financial activities of the Corporation consist only of business-type activities, which are primarily supported by charges for services and operating contributions.

State of Illinois
Illinois Grain Insurance Corporation
(A Component Unit of the State of Illinois)

Financial Audit and Compliance Examination
For the Years Ended June 30, 2009 and 2008

Notes to the Financial Statements

Note 2. Summary of Significant Accounting Policies – Continued:

The financial activities of the Corporation are recorded in one individual fund, the Illinois Grain Insurance Fund. The Illinois Grain Insurance Fund is a non-appropriated fund and is held locally. A fund is a separate accounting entity segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with specific regulations, restrictions, or limitations. The Corporation's financial activities reported in the accompanying financial statements have been classified as a proprietary fund (enterprise).

An enterprise fund accounts for resources obtained from fees charged to external users for goods or services.

c. Basis of Accounting and Measurement Focus

The Corporation's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place.

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

d. Cash Equivalents

Cash equivalents are defined as short-term, highly liquid investments readily convertible to cash with original maturities of three months or less. The Corporation's cash equivalents consist of deposits to the Illinois Funds Money Market Fund and Illinois Funds Prime Fund and are stated at cost. For the purpose of the statements of cash flows, all highly liquid investments with a maturity of three months or less when purchased are considered cash equivalents.

e. Net Assets

The statement of net assets reports \$6,258 and \$4,665 (expressed in thousands) of restricted net assets for the years ending June 30, 2009 and June 30, 2008, respectively. The entire balance is restricted by enabling legislation.

State of Illinois
Illinois Grain Insurance Corporation
(A Component Unit of the State of Illinois)

Financial Audit and Compliance Examination
For the Years Ended June 30, 2009 and 2008

Notes to the Financial Statements

Note 2. Summary of Significant Accounting Policies – Continued:

f. Classification of Revenues

The Corporation has classified its revenues as either operating or nonoperating. Operating revenues include the following:

Charges for Services

Assessment Fees – This revenue represents payment by grain dealers, warehousemen, grain sellers and lenders for their assessment as calculated and billed in accordance with the Illinois Grain Code.

Penalties – This revenue represents fines assessed for violations of open position limits and grain quantity violations. Fines may also be given for late payments of seller assessments.

Printer Fees – This revenue represents registration fees charged to approve printers of Price Later Contracts and Warehouse Receipts.

Nonoperating revenues include interest income and on behalf contribution from the Department for administrative support.

g. Environmental and Business Regulation

Environmental and Business Regulation Expenses comprise the following:

Claims Expenses

This expense account represents amounts paid to the Grain Indemnity Trust Fund for valid claims that have been made against the Illinois Grain Insurance Fund.

State law (240 ILCS 40/25-20(b)) requires the Corporation to transfer funds to the Grain Indemnity Trust Fund to compensate claimants, pay refunds, and fund the Grain Asset Preservation Account. Valid claims that have been made against the Corporation that have not yet been paid are recorded as claims payable due to the primary government.

h. On Behalf Revenues and Expenses

In accordance with Governmental Accounting Standards Board ("GASB") Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, the Corporation reported a contribution of \$13 thousand made by the Department of Agriculture in fiscal year 2009 and 2008. The Department contribution is reported as general revenue as on behalf contribution with an equal and offsetting amount reported with environmental and business regulation expense.

State of Illinois
Illinois Grain Insurance Corporation
(A Component Unit of the State of Illinois)

Financial Audit and Compliance Examination
For the Years Ended June 30, 2009 and 2008

Notes to the Financial Statements

Note 3. Deposits:

For funds maintained outside the State Treasury (locally held funds), agencies have independent authority to manage their own cash. State law requires all fees assessed pursuant to 240 ILCS 40/5-30 be held in the Illinois Grain Insurance Fund.

Investments

By statute, the Corporation is authorized to invest in any securities guaranteed by the full faith and credit of the United States of America and other available bank investments constituting direct obligations of any bank as defined by the Illinois Banking Act and covered by federal depository insurance. In addition, the Corporation can invest in short-term obligations of certain corporations, short-term discount obligations of the Federal National Mortgage Association and Illinois Funds.

The Corporation's investments at June 30, 2009 and 2008 included the Illinois Funds Money Market Fund and the Illinois Funds Prime Fund. The Illinois Funds Money Market Fund and the Illinois Funds Prime Fund are held at U.S. Bank in Springfield, Illinois.

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 Corporation does not have a formal policy that addresses this type of investment risk.

The Illinois Funds Money Market Fund and the Illinois Funds Prime Fund are external investment pools managed by the Illinois State Treasurer. The weighted average maturity for Illinois Funds is 0.04 years. The Illinois Funds is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in the Illinois Funds are valued at the Illinois Fund Money Market's share price, which is the price the investment could be sold for.

Credit Risk

Generally, credit risk is the risk that an issuer of a debt investment will not fulfill its obligations to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Corporation does not have a formal policy on limiting credit risk. However, the

State of Illinois
Illinois Grain Insurance Corporation
(A Component Unit of the State of Illinois)

Financial Audit and Compliance Examination
For the Years Ended June 30, 2009 and 2008

Notes to the Financial Statements

Note 3. Deposits – Continued:

Corporation's investments are held in the State Investment Pool. As of year-end, the State Investment Pool (Illinois Funds) had a rating of AAAM from Standard and Poor's.

Concentration of Credit Risk and Custodial Credit Risk

Concentration risk is the risk of loss attributed to the concentration of an entity's investment in a single issuer. Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the Corporation 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 Corporation's investments at June 30, 2009 and 2008 are not subject to concentration of credit risk or custodial credit risk.

Note 4. Intergovernmental Activity:

Balances Due From Primary Government

This represents monies due from the Illinois Department of Agriculture (IDOA) Grain Indemnity Trust Fund. The Corporation is allowed to recover funds from prior claims paid when such funds from failed elevators become available. These funds are recovered by the Grain Indemnity Trust Fund and at that point are recorded as reimbursements due from primary government. The Corporation also funds the Grain Asset Preservation Account in the IDOA Grain Indemnity Trust Fund. Until expenses are incurred by the Corporation and paid by the agency, it is due from the primary government. There was \$26 thousand and \$48 thousand due from the primary government at June 30, 2009 and June 30, 2008, respectively.

Balances Due To Primary Government

This represents monies due to the Illinois Department of Agriculture (IDOA) Grain Indemnity Trust Fund for payment of claims for a grain licensee failure. There was \$935 thousand due to the primary government at June 30, 2008.

State of Illinois
Illinois Grain Insurance Corporation
(A Component Unit of the State of Illinois)

Financial Audit and Compliance Examination
For the Years Ended June 30, 2009 and 2008

SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES

SUMMARY

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

- Fiscal Schedules and Analysis:
 - Introduction
 - Comparative Schedule of Revenues
 - Explanation of Significant Variations in Expenses
 - Explanation of Significant Variations in Revenues
 - Analysis of Accounts Receivable

- Analysis of Operations:
 - Agency Functions and Planning Program
 - Schedule of Grain Dealers and Grain Warehouses (Unaudited)

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

**State of Illinois
Illinois Grain Insurance Corporation
(A Component Unit of the State of Illinois)**

**Financial Audit and Compliance Examination
For the Years Ended June 30, 2009 and 2008**

Introduction

The State of Illinois, Illinois Grain Insurance Corporation (a component unit of the State of Illinois) (Corporation) was created on August 16, 1983 by the Illinois Grain Code (240 ILCS 40/1). The Corporation is located in the Department of Agriculture, State Fairgrounds, 801 Sangamon Avenue, Springfield, Illinois, 62702.

The Corporation was created for the purpose of improving the economic stability of agriculture by establishing funds to pay grain producers and other claimants for losses incurred by the failure of a grain dealer or warehouseman.

The Corporation receives no appropriations and remits no deposits to the State Comptroller. As a result, no schedules of appropriations, schedules of cash receipts or reconciliation of cash receipts to deposits remitted to the State Comptroller are presented in the supplementary information.

State of Illinois
 Illinois Grain Insurance Corporation
 (A Component Unit of the State of Illinois)

Financial Audit and Compliance Examination
 For the Years Ended June 30, 2009 and 2008

COMPARATIVE SCHEDULE OF REVENUES
 Years Ended June 30, 2009, 2008 and 2007

Illinois Grain Insurance Fund - #1205

	<u>2009</u>	<u>2008</u>	<u>2007</u>	Increase/ (Decrease) 2008 to 2009	Increase/ (Decrease) 2007 to 2008
Assessment Fees	\$ 1,561,682	\$ 1,451,590	\$ 1,712,594	\$ 110,092	\$ (261,004)
Penalties	4,250	3,000	9,250	1,250	(6,250)
Recovery of Claims*	-	-	1,220	-	(1,220)
Printer Fees	2,500	2,500	1,800	-	700
On Behalf Contribution	13,000	13,000	-	-	13,000
Interest Income	46,958	236,597	311,100	(189,639)	(74,503)
Total Revenue	<u>\$ 1,628,390</u>	<u>\$ 1,706,687</u>	<u>\$ 2,035,964</u>	<u>\$ (78,297)</u>	<u>\$ (329,277)</u>

*Beginning in fiscal year 2008, the Corporation no longer identifies recovery of claims as an income item at the request of the Illinois Office of the Comptroller and due to their immateriality. Rather the recoveries reduce claims expenditures.

State of Illinois
 Illinois Grain Insurance Corporation
 (A Component Unit of the State of Illinois)

Financial Audit and Compliance Examination
 For the Years Ended June 30, 2009 and 2008

Explanation of Significant Variations in Expenses
 (Expressed in Thousands)

The following is a detailed comparison of expenditures for the years ended 2009 and 2008:

	Fiscal Year 2009	Fiscal Year 2008	Increase (Decrease)
Claims Expenditure	\$ -	\$ 3,695	\$ (3,695)
Recovery of Claims Expenditure	(2)	(2)	-
Recovery Expenditure	22	21	1
Refunds	2	-	2
On behalf employee expenses	13	13	-
Total Expenditures	<u>\$ 35</u>	<u>\$ 3,727</u>	<u>\$ (3,692)</u>

The following is a detailed comparison of expenditures for the years ended 2008 and 2007:

	Fiscal Year 2008	Fiscal Year 2007	Increase (Decrease)
Claims Expenditure	\$ 3,695	\$ -	\$ 3,695
Recovery of Claims Expenditure	(2)	-	(2)
Recovery Expenditure	21	19	2
Refunds	-	4	(4)
On behalf employee expenses	13	-	13
Total Expenditures	<u>\$ 3,727</u>	<u>\$ 23</u>	<u>\$ 3,704</u>

During fiscal year 2008, the Corporation incurred expenditures for claims related to A-Way, Inc. and The Grain Exchange, LLC in the amounts of \$2,760 and \$935 (in thousands), respectively. During fiscal year 2009 and fiscal year 2007, there were no expenditures incurred for claims.

During fiscal year 2008, the Corporation started recording on behalf employee expenses provided by the Department of Agriculture.

State of Illinois
 Illinois Grain Insurance Corporation
 (A Component Unit of the State of Illinois)

Financial Audit and Compliance Examination
 For the Years Ended June 30, 2009 and 2008

Explanation of Significant Variations in Revenues
 (Expressed in Thousands)

Assessments:

The following is a detailed comparison of assessment revenue for the years ended June 30, 2009 and 2008:

	Fiscal Year 2009	Fiscal Year 2008	Increase (Decrease)
Dealer and Warehouse Assessments	\$ 1,078	\$ 933	\$ 145
Grain Seller Assessment	272	293	(21)
Lender Assessment	212	225	(13)
Total Assessment Revenue	<u>\$ 1,562</u>	<u>\$ 1,451</u>	<u>\$ 111</u>

The following is a detailed comparison of assessment revenue for the years ended June 30, 2008 and 2007:

	Fiscal Year 2008	Fiscal Year 2007	Increase (Decrease)
Dealer and Warehouse Assessments	\$ 933	\$ 747	\$ 186
Grain Seller Assessment	293	707	(414)
Lender Assessment	225	258	(33)
Total Assessment Revenue	<u>\$ 1,451</u>	<u>\$ 1,712</u>	<u>\$ (261)</u>

Assessment revenue is a function of assessments that are made based on the equity of the Grain Insurance Fund. When the fund equity falls below \$6 million, it triggers a subsequent assessment on all licensed Grain Dealers and Warehouseman. It also triggers an assessment determination for all holders of collateral warehouse receipts. These assessments are paid over the next year as the holders submit their quarterly reports and remittances. When the fund equity falls below \$2 million (\$3 million at the first assessment in fiscal year 2007), a Seller assessment determination is initiated and is also paid over the next year as the licensees submit their quarterly reports and remittances. Both Dealer and Warehouse Assessments and Lender Assessments were made on April 1, 2006; January 1, 2008; and April 1, 2009. As a result, these revenues have not had significant variances. The last Seller Assessment initiated was on June 30, 2006 and was paid in total during fiscal year 2007; hence the decrease in Seller Assessment revenue since fiscal year 2007.

State of Illinois
 Illinois Grain Insurance Corporation
 (A Component Unit of the State of Illinois)

Financial Audit and Compliance Examination
 For the Years Ended June 30, 2009 and 2008

Explanation of Significant Variations in Revenues
 (Expressed in Thousands)

Recovery of Claims:

The following is a comparison of revenue from recoveries of claims for fiscal years 2009 and 2008:

	Fiscal Year 2009	Fiscal Year 2008	Increase (Decrease)
Recovery of Claims	\$ -	\$ -	\$ -

The following is a comparison of revenue from recoveries of claims paid for fiscal years 2008 and 2007:

	Fiscal Year 2008	Fiscal Year 2007	Increase (Decrease)
Recovery of Claims	\$ -	\$ 1	\$ (1)

Beginning in fiscal year 2008, the Corporation no longer identifies recovery of claims as an income item at the request of the Illinois Office of the Comptroller and due to their immateriality. Rather, the recoveries reduce claims expenditures.

Interest Income:

The following is a comparison of interest income for fiscal years 2009 and 2008:

	Fiscal Year 2009	Fiscal Year 2008	Increase (Decrease)
Interest Income	\$ 47	\$ 237	\$ (190)

The following is a comparison of interest income for fiscal years 2008 and 2007.

	Fiscal Year 2008	Fiscal Year 2007	Increase (Decrease)
Interest Income	\$ 237	\$ 311	\$ (74)

The decrease in interest income from fiscal year 2007 to fiscal year 2008 and again from fiscal year 2008 to fiscal year 2009 is due to decreases in the cash balance. The fund was fully funded in fiscal year 2007 but as claims were paid in fiscal year 2008 and fiscal year 2009 for elevator failures in fiscal year 2008, the cash balance declined.

State of Illinois
 Illinois Grain Insurance Corporation
 (A Component Unit of the State of Illinois)

Financial Audit and Compliance Examination
 For the Years Ended June 30, 2009 and 2008

Analysis of Accounts Receivable
 (Expressed in Thousands)

Accounts receivable consist of assessment receivables and amounts due from the Grain Indemnity Trust Fund. A detailed description of the amounts due from the Grain Indemnity Trust Fund is provided in the notes to the basic financial statements.

	Fiscal Year 2009		Fiscal Year 2008	
	Amount	Age of Account	Amount	Age of Account
Receivables	\$ 968	Current	\$ 374	Current
Due from Grain Indemnity Trust Fund	26	Current	48	Current
Totals	<u>\$ 994</u>		<u>\$ 422</u>	
Estimated Collectible	<u>\$ 994</u>		<u>\$ 422</u>	
	Fiscal Year 2008		Fiscal Year 2007	
	Amount	Age of Account	Amount	Age of Account
Receivables	\$ 374	Current	\$ 4	Current
Due from Grain Indemnity Trust Fund	48	Current	-	Current
Totals	<u>\$ 422</u>		<u>\$ 4</u>	
Estimated Collectible	<u>\$ 422</u>		<u>\$ 4</u>	

The Assessment Receivables balance is a function of Subsequent Assessments made, which are related to the equity of the fund. When the fund equity of the Grain Insurance Fund falls below \$6 million, it triggers a subsequent assessment on all licensed Grain Dealers and Warehousemen. At the end of fiscal year 2007, the previous assessment had been collected in full. The next assessment was on January 1, 2008 and would have been over 50% paid at June 30, 2008. The most recent assessment was made April 1, 2009 so the June 30, 2009 balance is still a substantial portion of the assessment.

Method of Collection

The Grain Insurance collects receivables through the Department of Agriculture's offset system.

**State of Illinois
Illinois Grain Insurance Corporation
(A Component Unit of the State of Illinois)**

**Financial Audit and Compliance Examination
For the Years Ended June 30, 2009 and 2008**

Agency Functions and Planning Program

The State of Illinois, Illinois Grain Insurance Corporation (a component unit of the State of Illinois) (Corporation) was created on August 16, 1983 by the Illinois Grain Code (240 ILCS 40/1). The Corporation was created for the purpose of improving the economic stability of agriculture by establishing funds to pay grain producers and other claimants for losses incurred by the failure of a grain dealer or warehouseman.

The Corporation is located in the State of Illinois, Illinois Department of Agriculture (Department), State Fairgrounds, Springfield, Illinois. At June 30, 2009, the Corporation operated under the direction of the following Board of Directors:

Board Member and President

Thomas E. Jennings, Director of the Illinois Department of Agriculture

Board Member and Secretary

Karen McNaught, Designee of Attorney General

Board Member and Treasurer

Ed Buckles, Designee of State Treasurer

Board Member

Keith A. Fanning, Designee of Illinois Department of Financial and Professional Regulation

Board Member

Laura A. Lanterman, Chief Fiscal Officer, Illinois Department of Agriculture

The Board of Directors meets periodically to address the Corporation's operations.

Fiscal support to carry out the responsibilities of the Corporation is provided by the Department.

The primary functions of the Corporation are to make investments with funds assessed and collected by the Department and to transfer funds to the Grain Indemnity Trust Fund when the Director of the Department determines it necessary in order to compensate claimants in accordance with the Illinois Grain Code. The assessments are collected from grain dealers, warehousemen, grain sellers and lenders as established in the Illinois Grain Code (240 ILCS 40/5-30).

Operating programs of the Corporation are specified by the Illinois Grain Code (Grain Code). These operating programs have been established adequately by the Corporation in order to meet its defined goals and objectives. An adequate system for monitoring the programs of the Grain Code has been developed by the Corporation.

State of Illinois
Illinois Grain Insurance Corporation
(A Component Unit of the State of Illinois)

Financial Audit and Compliance Examination
For the Years Ended June 30, 2009 and 2008

SCHEDULE OF GRAIN DEALERS AND GRAIN WAREHOUSES
(UNAUDITED)

	<u>Fiscal Year 2009</u>	<u>Fiscal Year 2008</u>
Active Dealers/ Warehouses - beginning of year	337	352
Add: New dealer/ warehouses	9	8
Less: Closed or insolvent dealers/ warehouses	<u>(27)</u>	<u>(23)</u>
Active Dealers/ Warehouses - end of year	<u><u>319</u></u>	<u><u>337</u></u>