STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY

FINANCIAL AUDIT
For the Year Ended June 30, 2013

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

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
(A Component Unit of the State of Illinois)
FINANCIAL AUDIT
For the Year Ended June 30, 2013

TABLE OF CONTENTS

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

AGENCY OFFICIALS

Chairman of the Board of Directors	Mr. William Brandt, Jr.
Executive Director	Mr. Christopher Meister
Chief Financial Officer (Acting)	Mr. Scott Bailey (01/14/14 - current)
Chief Financial Officer	Mr. Dennis Anosike (07/24/13 - 01/13/14)
Chief Financial Officer (Acting)	Mr. Scott Bailey (02/01/13 - 07/23/13)
Assistant Chief Financial Officer*	Ms. Ximena Granda (07/01/12 - 01/31/13)
Controller^	Ms. Ximena Granda (08/19/13 - current)
Assistant Treasurer*	Ms. Joy Kuhn (07/01/12 - 01/23/13)
General Counsel (Acting)	Ms. Pamela Lenane

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

Member	Mr. William 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 O'Brien
Member	Mr. Michael Goetz
Member	Mr. Bradley Zeller
Member	Mr. Roger Poole
Member	Mr. Edward Leonard Sr.
Member	Mr. Norman Gold
Member	Mr. James Fuentes
Member	Mr. Barrett Pedersen
Member	Ms. Gila Bronner
Member	Ms. Heather Parish
Member	Ms. Carmen Lonstein (06/21/13 - current)
	Vacant (07/01/12 - 06/20/13)

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

AGENCY OFFICIALS (continued)

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

Member	Mr. Lerry Knox (10/05/12 - current)
	Vacant (07/01/12 - 10/04/12)
Member	Mr. Mordecai Tessler (10/05/12 - current)
	Vacant (07/01/12 - 10/04/12)

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

Agency offices are located at:

Chicago Office
180 North Stetson Avenue, Suite 2555
Chicago, Illinois 60601

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

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

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 matters involving the Authority's internal control over financial reporting that they considered to be material weaknesses and significant deficiencies. The material weaknesses are described in the accompanying Schedule of Findings on pages 70-77 of this report as items 2013-001, *Inadequate Monitoring of Borrower Compliance*, and 2013-002, *Inadequate Financial Reporting Controls.* The significant deficiencies are described in the accompanying Schedule of Findings on pages 78-81 of this report as items 2013-003, *Failure to Enter into an Intergovernmental Agreement*, and 2013-004, *Failure to Write-Off Uncollectible Balances.*

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 exit conferences on December 6, 2013 and December 12, 2013. Attending were:

Illinois Finance Authority

Christopher Meister, Executive Director
Dennis Anosike, Chief Financial Officer
Ximena Granda, Controller

Audit Committee

Gila Bronner, Chairwoman of the Audit Committee

External Consultant

Scott Bailey, Independent Consultant

Office of the Auditor General

Daniel J. Nugent, CPA, Audit Manager

E.C. Ortiz & Co., LLP

Marites Sy, Partner
Analie Hoyle, Manager
Minerva Cariaga, Manager

The responses to the recommendations were provided by Dennis Anosike, Chief Financial Officer, in separate letters dated December 18, 2013 and January 10, 2014.

Independent Auditors' Report

Honorable William G. Holland
Auditor General
State of Illinois

and

Ms. Gila Bronner
Chairwoman of the Audit Committee
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, 2013, 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.

Auditor's 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

333 SOUTH DES PLAINES STREET, SUITE 2-N CHICAGO, IL 60661 tel: 312.876.1900 fax: 312.876.1911

due to fraud or error. In making those risk assessments, the auditor considers internal control 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, 2013, 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.

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 8-17 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 January 15, 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
January 15, 2014

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
(A Component Unit of the State of Illinois)
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013

This section of the Illinois Finance Authority (Authority) financial report provides management's discussion and analysis of the financial performance of the Authority for the year ended June 30, 2013. This section should be read in conjunction with the Independent Auditors' Report at the beginning of this report and the financial statements, which follow this section.

Management Discussion and Analysis (MD&A) is an opportunity for management to share information about the Authority with constituents, including the citizens of the State of Illinois and their representatives and investors who buy and sell the Authority's bonds, in a meaningful and understandable fashion. In addition to describing the Authority and its activities, this MD&A briefly analyzes, discusses or presents information regarding:

- Basic financial statements
- Condensed financial information
- Overall financial position and results of operations
- Significant transactions within individual funds
- Major capital assets and long-term debt activity

Background

The Authority was established on January 1, 2004, from the combination of seven independent statutory agencies: Illinois Development Finance Authority, Illinois Farm Development Authority, Illinois Health Facilities Authority, Illinois Educational Facilities Authority, Illinois Community Development Finance Corporation, Illinois Rural Bond Bank and Illinois Research Park Authority.

The Authority is a body politic and corporate entity, separate from the State of Illinois (the "State"), and exercises powers that constitute essential governmental functions. It is the primary Illinois delivery system for federal tax benefits for capital projects by qualified borrowers in support of economic development and job creation across the State. No State appropriations support the administration and operation of the Authority. Instead, the Authority supports its administration and operations from fees charged to borrowers who utilize the Authority to issue tax-exempt debt as well as from interest and fees collected from certain loans and investments. A fifteen-member Board of Directors, appointed by the Governor and confirmed by the State Senate, oversees policy and the public economic development functions of the Authority. The employees of the Authority are not members of any State employee pension system.

The Authority is authorized to issue revenue bonds and other credit enhancements to finance projects for public, private sector companies and non-profit 501(c)(3) organizations that create or retain jobs in Illinois. Except as described elsewhere in this MD&A, these bonds do not constitute State debt. The Authority also issues bonds backed by the Moral Obligation of the

State of Illinois and administers a limited number of contingent State-backed loan guarantee or credit enhancement programs.

Financial Highlights

Management believes that a key gauge of its success is its ability to meet its core mission. In Fiscal Year 2013, the Authority supported borrowers by financing and refinancing hospitals, local schools and colleges, State office buildings, recreational facilities, transportation facilities, and other projects for the benefit of the State. The Authority also facilitated low interest loans to Illinois communities for environmental improvements under the Governor's Clean Water Initiative and promoted business and employment opportunities by issuing tax-exempt financing for farmers and industrial development projects. The Authority's conduit revenue bonds are not general obligations of the Authority nor are they State debt within the meaning of any constitutional provision. They are special and limited obligations of the Authority, payable from project revenues, bond, note or other revenue proceeds.

An important indicator of the Authority's financial health is whether or not the Authority receives sufficient revenue from its activities to service debt revenue for its revenue bonds and other obligations when due and to cover the Authority's operating cost. Historically, and in Fiscal Year 2013, the Authority and its predecessor entities had sufficient resources to pay its debts and meet its other obligations.

Major accomplishments by the Authority in Fiscal Year 2013 include:

- issued $2.26 billion of new bonds for qualified borrowers in support of economic development and job creation in Illinois;
- paid $36.54 million of principal and interest on long-term bonds;
- worked with the Illinois Environmental Protection Agency to develop funding strategies to expand the Governor's Clean Water Initiative for drinking water and waste water infrastructure projects for Illinois communities;
- established an innovative framework for evaluating new programs that better aligns the Authority's public mission, program risk, project revenue and competitive position;
- partnered with Loyola University's Stritch School of Medicine to provide affordable loans to qualified Deferred Action for Childhood Arrivals ("DACA") or Dream Act students. In addition to attracting the best and brightest kids from

across the nation to the State's medical schools, this program will also enhance healthcare services to underserved communities in Illinois;

- launched the Small Contractor Bridge program in conjunction with the Chicago Community Loan Fund to expand access to capital for small and emerging businesses in order to ease cash flow problems for these entities involved in public works projects;

- streamlined the internal supply chain processes to improve transparency and enhance the Authority's competitive advantage in utilizing professionals to support economic development and job creation in Illinois; and,

- received authorization in collaboration with the Office of the State Fire Marshal to enhance management of the Fire Truck and Ambulance Loan programs to maximize efficient use of taxpayer funds and ensure program sustainability.

Basic Financial Statements

In general, the purpose of financial reporting is to provide external parties that read financial statements with information that will help them make decisions or draw conclusions about an entity. There are many external parties that read the Illinois Finance Authority's financial statements; however, these parties do not always have the same specific objectives.

To assure these objectives are met for different parties, Governmental Accounting Standards Board (GASB) Statement No. 34 generally requires that basic financial statements for governmental entities include both government-wide and fund financial statements. However, for governmental entities which are engaged only in business-type activities accounted for in enterprise funds, GASB Statement No. 34 requires presentation of fund financial statements only. Governmental reporting standards require an enterprise fund be used to account for an activity if the pricing policies of the activity establish fees and charges designed to recover its costs. Accordingly, as all of the Authority's activities are business-type activities accounted for as enterprise funds, the Authority's financial statements present only the fund financial statements and not government-wide financial statements.

Enterprise fund financial statements are prepared using the accrual method of accounting and consist of a statement of net position, a statement of revenues, expenses, and changes in fund net position, and a statement of cash flows.

The Statement of Net Position presents the financial position of the Authority as of June 30, 2013 and includes all assets and liabilities of the Authority.

The Statement of Revenues, Expenses and Changes in Fund Net Position present the Authority's results of operations. The Authority's revenues and expenses are classified into three categories operating, nonoperating, and 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.

The Authority's financial statements also include notes to the financial statements, which provides more detailed financial data and further explains some of the information reported in the financial statements.

Condensed Financial Information

The following tables summarize the Authority's financial position and operations for the past two years:

STATEMENT OF NET POSITION (IN MILLIONS)

	Business-type Activities	
	2013	2012
Current assets	$147.91	$131.89
Noncurrent assets	187.45	221.43
Capital assets	.12	.11
Total assets	335.48	353.43
Current liabilities	40.59	40.46
Noncurrent liabilities	199.43	219.95
Total Liabilities	240.02	260.41
Net investment in capital assets	.12	.11
Restricted	26.72	25.89
Unrestricted	68.62	67.02
Total net position	$95.46	$93.02

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION (IN MILLIONS)

	Business-type Activities	
	2013	2012
Operating revenues	$12.89	$16.55
Operating expenses	13.81	14.98
Operating income (loss)	(0.92)	1.57
Nonoperating revenue	3.36	.46
Change in net position	2.44	2.03

Analysis of Overall Financial Position and Results of Operations

The decrease in total assets and total liabilities in Fiscal Year 2013 occurred because investments held in custodial accounts in the bond fund matured and were used to pay a portion of principal due on the bonds issued for the benefit of other agencies and component units of the State of Illinois and bonds issued under the Authority's local government bond bank program.

Operating revenues decreased in 2013 mainly due to the Authority receiving $1.17 million less in interest on loans due to a reduction in loans outstanding, a reduction of $1.49 million in the recoveries of previously written off bad debts compared to 2012 and the Authority's receipt of $1.58 million from several settlements in 2012. These decreases were offset by a $1.03 million increase in service fees. The Authority's operating expenses declined in 2013 by $1.17 million due to a reduction in interest payments from Fiscal Year 2012 due to the Authority's redemption of its long-term debt.

The increase in nonoperating income in Fiscal Year 2013 was primarily due to the decline in the value of $2.07 million reported in the Authority's Venture Capital investments in 2012 not recurring in 2013. In addition, a loan made and outstanding in prior years was converted to a grant in Fiscal Year 2012 in accordance with the amendment of the Illinois Finance Authority Act (20 ILCS 3501/840-5(j)).

Financial Analysis of the Authority's Funds

The Authority has two major enterprise funds.

General Operating Fund – The General Operating Fund receives all revenues from program activities, except for those monies required to be reported in a separate fund. All administrative expenses relating to establishing and managing the Authority's programs, except for those expenditures required to be paid from a separate fund, are paid from this fund. During Fiscal Year 2013, the net position in this fund increased by $1.59 million to $49.31 million. The major reason for this increase in net position was due to better than expected results in the Authority's operations due to the improved demand for the Authority's services.

The following table summarizes the results of operations of the Authority's General Operating Fund, in millions, for the past two years:

	General Operating Fund	
	2013	2012
Operating revenues	$ 4.97	$ 7.72
Operating expenses	3.81	3.83
Operating income	1.16	3.89
Nonoperating revenues	.04	.02
Transfers from other funds	.39	.19
Change in net position	$ 1.59	$ 4.10

Bond Fund **–** The purpose of the fund is to account for bond proceeds and related assets for the Authority's bonds issued on behalf of agencies and component units of the State of Illinois as well as bonds issued under the Authority's local government bond bank program. Specifically, the Bond Fund receives bond proceeds, holds custodial accounts relating to certain funds pledged to secure these bonds, purchases participating institutions securities, and remits bond issuance costs paid for with bond proceeds. The fund also collects interest and principal payments from the participating institutions and makes payments on the bonds payable. During Fiscal Year 2013, the restricted fund net position in this fund increased by $.08 million to $2.04 million. This increase was due to the decline in interest expense from Fiscal Year 2012 due to the Authority's redemption of its long-term debt.

The following table summarizes the results of operations of the Authority's Bond Fund, in millions, for the past two years:

	Bond Fund	
	2013	2012
Operating revenues	$ 7.85	$ 8.77
Operating expenses	9.98	11.13
Operating income	(2.13)	(2.36)
Nonoperating revenues	2.21	2.47
Change in net position	$ .08	$ .11

Nonmajor Funds - In accordance with Generally Accepted Accounting Principles, the Authority also reports the aggregate net position, revenues, expenses and changes in fund net position and cash flows of its nonmajor funds. During Fiscal Year 2013, these funds together reported an increase in fund net position of $0.77 million. This increase was due to positive operating results.

As of June 30, 2013, the Authority's nonmajor funds in aggregate reported unrestricted net position of $19.43 million and restricted net position of $24.68 million. The majority of the restricted net position held by the Authority's nonmajor funds was restricted to secure the State loan guarantees.

Discussion of Significant Capital Assets and Long-Term Debt Activity

Capital Assets

The Authority has established a policy of capitalizing assets as described in Note 2(j) to the financial statements. The Authority's investment in capital assets, net of accumulated depreciation, for business-type activities as of June 30, 2013 was $0.12 million.

Additional information about capital assets can be found in Note 12 to the financial statements.

Long-Term Debt

The Authority issues long-term debt on behalf of third-party entities to convey tax-exempt municipal bond status to provide lower cost financing for capital projects undertaken by businesses, agribusinesses, health care facilities, educational facilities, municipalities, and other organizations in order to stabilize and strengthen the Illinois economy through job creation and retention.

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. The underlying Borrower is solely responsible for repayment of the conduit bonds. 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 (20 ILCS 3501/801-40(c)). Neither the full faith nor credit of the Authority or the State of Illinois, nor the taxing power of the State, is pledged to secure 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 45 separate conduit debt issues in Fiscal Year 2013 with an aggregate principal amount of $2.26 billion. As of June 30, 2013, the aggregate amount of conduit debt outstanding is approximately $24.57 billion.

The Authority also issues revenue bonds to facilitate borrowings for capital asset projects by other agencies and component units of the State of Illinois. Examples of these bonds include revenue bonds issued on behalf of the Northern Illinois University, the Northern Illinois University Foundation, the Illinois Environmental Protection Agency, and the Illinois Medical District Commission.

During the year ended June 30, 2013, a new bond issue for the Northern Illinois University Foundation was approved for a principal amount not to exceed $6.10 million.

Although these debts issues are conduit bonds (in that the underlying State agency or component unit is the sole obligor), because these bonds are issued for the benefit of third parties that, along with the Authority, are component financial reporting entities of the State of Illinois financial reporting entity, these bond issues are not considered conduit debt under Generally Accepted Accounting Principles and thus are reported as liabilities on the Authority's basic financial statements. As of June 30, 2013, the aggregate amount of intra-State debt outstanding is $160.86 million.

The Illinois Finance Authority Act (20 ILCS 3501/801-40(w), 20 ILCS 3501/825-40, 20 ILCS 3501/825-75) also allows the Authority to issue revenue bonds with the State's moral obligation or additional security attached. This pledge states that in the event that borrower funds are not be available for the payment of principal and interest, the Authority is required to notify the Governor of the State of Illinois in writing. The Governor is required to request an appropriation from the General Assembly in an amount sufficient to cover this shortfall, which may appropriate moneys to make up the shortfall. However, the General Assembly is only morally, not legally, obligated to make any such appropriation.

The Authority did not issue any revenue bonds with the State's moral obligation in Fiscal Year 2013. As of June 30, 2013, the amount of revenue bonds with the State's moral obligation attached is $37.24 million for the Illinois Rural Bond Bank, $38.44 million for the Illinois Medical District Commission, and $3.88 million for the City of East St. Louis. In January 2013, Standards and Poor's downgraded the rating on revenue bonds secured by the State of Illinois moral obligation to BBB- from "BBB". Because the General Assembly is not required to fund any shortfall for bonds secured by a Moral Obligation pledge, the rating agencies rate Moral Obligation Bonds less favorably than General Obligation Bonds issued by the State.

In addition to its revenue bonds, the Authority also has outstanding loans with the U.S. Department of Agriculture for $0.49 million and with the State of Illinois for $19.04 million. These loans provide funding for the Authority's Rural Development Loan Program and the Fire Truck and Ambulance Revolving Loan Programs.

Additional information about long-term debt can be found in Note 2(p), Note 9 and Note 10 to the financial statements.

Relevant Current Economic Factors, Decisions and Conditions

As the nation slowly recovers from its economic challenges and the State and local governments continue to face budgetary crises, the Authority remains a model of accountability, transparency and efficiency in fulfilling its public mission to facilitate economic development by creating and retaining jobs for the people of Illinois. The Authority reflects Illinois policy priorities established by the Governor and the General Assembly.

Accurately anticipating a national decline in issuance volume in its core not-for-profit hospital and higher education sectors, the Authority in recent years took a series of measures to align its organizational cost structure with anticipated revenues. The results of these efforts dramatically reshaped the organization and helped the Authority to maintain its ability to deliver on its mission during the year.

The Authority continues to face a number of existential, regulatory and economic challenges on the horizon, including but not limited to the following:

- Continued national decline in the volume of tax-exempt municipal bond issuances (including general obligation issuers);
- Continuing discussion at the federal level regarding the reduction or elimination of the federal tax-exemption;
- Uncertainty over the impact of federal healthcare reform on not-for-profit hospital borrowers; and
- Increased competition from out-of-State issuers and local development authorities without the breath of accountability and transparency requirement of the Authority.

While the Authority has a strong balance sheet, these unprecedented challenges and potential changes in the tax-exempt financing environment led the Authority to initiate a strategic review of its mission and goals. The result of this review has already propelled changes in how the Authority operates and this emerging dynamic will continue to shape the Authority's corporate priorities into the future.

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
(A Component Unit of the State of Illinois)
Statement of Net Position
June 30, 2013

Assets	**General Operating Fund**	**Bond Fund**	**Nonmajor Funds**	**Total**
Current assets:				
Cash and cash equivalents - unrestricted	$ 45,590,018	$ -	$ 16,223,766	$ 61,813,784
Investments - unrestricted	85,000	-	-	85,000
Restricted current assets				
Cash and cash equivalents	-	10,278,503	5,002,787	15,281,290
Securities lending collateral equity with the State Treasurer	-	-	12,192,000	12,192,000
Accrued interest receivable	-	1,299,783	4,305	1,304,088
Restricted investments	-	42,755,362	-	42,755,362
Bonds and notes receivable	-	2,606,300	-	2,606,300
Bonds and notes receivable from primary government	-	8,450,000	-	8,450,000
Bonds and notes receivable from State component units	-	1,077,054	-	1,077,054
Loans receivable	-	-	1,730,897	1,730,897
Allowance for doubtful accounts	-	-	(91,484)	(91,484)
Current portion of unamortized issuance costs	-	14,324	-	14,324
Receivables:				
Accounts	119,875	20,000	-	139,875
Allowance for doubtful accounts	(24,789)	-	-	(24,789)
Loans receivable	380,065	-	31,132	411,197
Interest and other	30,570	-	943	31,513
Due from other funds	7,668	-	15,268	22,936
Current portion of unamortized issuance costs	37,102	-	-	37,102
Prepaid expenses and deposits	71,733	-	-	71,733
Total current assets	46,297,242	66,501,326	35,109,614	147,908,182
Noncurrent assets:				
Restricted noncurrent assets				
Cash and cash equivalents	-	-	18,445,612	18,445,612
Interest receivable	-	-	6,000	6,000
Guarantee payments receivable	-	-	822,411	822,411
Allowance for doubtful accounts	-	-	(822,411)	(822,411)
Unamortized issuance costs, net of accumulated amortization	-	53,332	-	53,332
Investments	-	56,689,231	-	56,689,231
Bonds and notes receivable	-	27,255,037	-	27,255,037
Bonds and notes receivable from primary government	-	14,293,725	-	14,293,725
Bonds and notes receivable from State component units	-	44,401,393	-	44,401,393
Loans receivable	-	-	19,138,060	19,138,060
Allowance for doubtful accounts	-	-	(14,768)	(14,768)
Loans receivable	4,920,175	-	3,157,688	8,077,863
Allowance for doubtful accounts	(1,056,404)	-	-	(1,056,404)
Capital assets, at cost	587,116	-	-	587,116
Accumulated depreciation	(470,495)	-	-	(470,495)
Unamortized issuance costs, net of accumulated amortization	166,443	-	-	166,443
Total noncurrent assets	4,146,835	142,692,718	40,732,592	187,572,145
Total assets	50,444,077	209,194,044	75,842,206	335,480,327

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, 2013

	General Operating Fund	Bond Fund	Nonmajor Funds	Total
Liabilities				
Current liabilities:				
Accounts payable	10,730	52,981	-	63,711
Accrued expenses	538,945	147,234	-	686,179
Obligation under securities lending of the State Treasurer	-	-	12,192,000	12,192,000
Accrued interest payable	-	3,520,590	2,891	3,523,481
Due to employees	80,565	-	-	80,565
Due to primary government	184,640	241,172	1,527,864	1,953,676
Bonds payable, current	-	2,661,000	-	2,661,000
Bonds payable, primary government	-	16,900,000	-	16,900,000
Bonds payable, State component units	-	1,777,075	-	1,777,075
Current portion of long-term debt	-	-	58,802	58,802
Due to other funds	15,268	-	7,668	22,936
Unamortized loss on early extinguishment of debt, current	-	(8,852)	-	(8,852)
Unamortized issuance premium, current	-	624,283	-	624,283
Unearned revenue, net of accumulated amortization, current	53,796	-	-	53,796
Total current liabilities	883,944	25,915,483	13,789,225	40,588,652
Noncurrent liabilities:				
Noncurrent portion of long-term debt	-	-	428,471	428,471
Accrued expenses	-	2,727,203	-	2,727,203
Bonds payable, noncurrent	-	34,579,000	-	34,579,000
Bonds payable, primary government	-	90,870,000	-	90,870,000
Bonds payable, State component units	-	51,308,800	-	51,308,800
Due to primary government	-	-	17,514,400	17,514,400
Unearned revenue, net of accumulated amortization	248,465	-	-	248,465
Unamortized issuance premium	-	1,800,675	-	1,800,675
Unamortized loss on early extinguishment of debt	-	(48,879)	-	(48,879)
Total noncurrent liabilities	248,465	181,236,799	17,942,871	199,428,135
Total liabilities	1,132,409	207,152,282	31,732,096	240,016,787
Net Position				
Net investment in capital assets	116,621	-	-	116,621
Restricted:				
Enabling legislation	-	-	17,851,862	17,851,862
Externally imposed by creditors and grantors	-	2,041,762	6,829,451	8,871,213
Unrestricted	49,195,047	-	19,428,797	68,623,844
Total net position	$ 49,311,668	$ 2,041,762	$ 44,110,110	$ 95,463,540

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 Fund Net Position
For the Year Ended June 30, 2013

	General Operating Fund	Bond Fund	Nonmajor Funds	Total
Operating revenues:				
Interest on loans	$ 209,752	$ -	$ 55,906	$ 265,658
Interest on loans (security for revenue bonds)	-	7,806,637	-	7,806,637
Application fees	53,400	-	-	53,400
Annual fees	362,084	47,070	-	409,154
Administrative service fees	3,912,338	-	-	3,912,338
Bad debt recoveries	258,577	-	-	258,577
Loan loss provision	116,218	-	-	116,218
Miscellaneous	61,665	-	1,243	62,908
Total operating revenues	4,974,034	7,853,707	57,149	12,884,890
Operating expenses:				
Employee related expenses	1,789,531	-	-	1,789,531
Professional services	1,337,637	63,266	7,707	1,408,610
Depreciation	48,453	-	-	48,453
Occupancy costs	319,386	-	-	319,386
Interest expense	-	9,915,539	5,621	9,921,160
General and administrative	318,402	-	-	318,402
Total operating expenses	3,813,409	9,978,805	13,328	13,805,542
Operating income (loss)	1,160,625	(2,125,098)	43,821	(920,652)
Nonoperating revenues:				
Grant income	-	-	841,399	841,399
Interest and investment income	40,675	2,211,092	271,708	2,523,475
Total nonoperating revenues	40,675	2,211,092	1,113,107	3,364,874
Transfers:				
Transfers from other funds	386,774	-	-	386,774
Transfers to other fund	-	-	(386,774)	(386,774)
Total transfers	386,774	-	(386,774)	-
Change in net position	1,588,074	85,994	770,154	2,444,222
Net position - beginning of year	47,723,594	1,955,768	43,339,956	93,019,318
Net position - end of year	$ 49,311,668	$ 2,041,762	$ 44,110,110	$ 95,463,540

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, 2013

	General Operating Fund	Bond Fund	Nonmajor Funds	Total
Cash flows from operating activities:				
Cash received for fees and other	$ 4,276,848	$ 47,904	$ 106	$ 4,324,858
Cash payments for employee services	(1,783,048)	-	-	(1,783,048)
Cash payments to suppliers for goods and services	(1,625,507)	(35,999)	(7,707)	(1,669,213)
Net cash provided by (used in) operating activities	868,293	11,905	(7,601)	872,597
Cash flows from noncapital financing activities:				
Proceeds from the State of Illinois to make loans	-	-	3,620,000	3,620,000
Bonds and notes principal payments	-	(25,467,045)	(58,220)	(25,525,265)
Interest payments	-	(11,079,331)	(5,457)	(11,084,788)
Proceeds from issuance of revenue bonds	-	122,000	-	122,000
Principal paid to State	-	-	(1,389,893)	(1,389,893)
Grants received	-	-	841,399	841,399
Due from other funds	(1,593,556)	-	(610,881)	(2,204,437)
Due to other funds	671,351	-	1,533,086	2,204,437
Transfers from other funds	386,774	-	-	386,774
Transfers to other fund	-	-	(386,774)	(386,774)
Net cash used in noncapital financing activities	(535,431)	(36,424,376)	3,543,260	(33,416,547)
Cash flows from capital and related financing activity:				
Purchase of capital assets	(56,742)	-	-	(56,742)
Net cash used in capital and related financing activity	(56,742)	-	-	(56,742)
Cash flows from investing activities:				
Purchase of investments	-	(116,732,534)	-	(116,732,534)
Maturity and sales of investments	-	79,022,610	-	79,022,610
Interest and dividends on investments	40,675	2,791,377	271,708	3,103,760
Cash received for interest on loans	221,631	7,869,314	56,329	8,147,274
Cash received on loan receivables	2,528,201	32,186,963	1,529,108	36,244,272
Cash payments for loan receivables	-	-	(3,620,000)	(3,620,000)
Net cash provided by investing activities	2,790,507	5,137,730	(1,762,855)	6,165,382
Net increase (decrease) in cash and cash equivalents	3,066,627	(31,274,741)	1,772,804	(26,435,310)
Cash and cash equivalents - beginning of year	42,523,391	41,553,244	37,899,361	121,975,996
Cash and cash equivalents - end of year	$ 45,590,018	$ 10,278,503	$ 39,672,165	$ 95,540,686
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	$ 1,160,625	$ (2,125,098)	$ 43,821	$ (920,652)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	48,453	-	-	48,453
Interest on loans	(209,752)	(7,806,637)	(55,906)	(8,072,295)
Interest expense	-	9,915,539	5,621	9,921,160
Amortization of bond issuance costs	43,062	15,594	-	58,656
Amortization of unearned revenue	(61,375)	-	-	(61,375)
Bad debt recoveries	(258,577)	-	-	(258,577)
Loan loss provision	(116,218)	-	-	(116,218)
Changes in assets and liabilities:				
Accounts receivable	(51,265)	831	(1,137)	(51,571)
Other liabilities	(14,637)	-	-	(14,637)
Prepaid expenses and deposits	(37,546)	-	-	(37,546)
Accounts payable and accrued expenses	359,039	11,676	-	370,715
Due to employees	6,484	-	-	6,484
Net cash provided by (used in) operating activities	$ 868,293	$ 11,905	$ (7,601)	$ 872,597
Noncash investing activities:				
Change in fair value of investments	$ -	$ 158,405	$ -	$ 158,405

See accompanying notes to the basic financial statements.

(1) ORGANIZATION

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 mission of the Authority as statutorily defined in the Illinois Finance Authority Act (20 ILCS 3501/801 et. seq.) 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.

The Authority is a body corporate and politic of the State of Illinois. The Authority is governed by a 15-member board of directors, appointed by the Governor with the advice and consent of the Senate. As specified in the Illinois Finance Authority Act (20 ILCS 3501/845-5), the amount of bonds issued by the Authority cannot exceed $28,150,000,000.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Authority have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB). To facilitate the understanding of data included in the financial statements, summarized below are the more significant accounting policies.

(a) Financial Reporting Entity

As defined by GAAP, the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as:

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

(2) Fiscal dependency on the primary government.

For financial reporting purposes, the Authority is a component unit of the State of Illinois. The Authority does not treat any other reporting entities as component units.

(b) 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 position, 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 - The 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 as set forth in Illinois Finance Authority Act (20 ILCS 3501/801-40(j)).

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

(c) 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. Nonexchange transactions, in which the Authority receives value without directly giving equal value in exchange, include federal and State grant revenue. Revenue from these sources is recognized in the fiscal year in which all eligibility requirements have been met.

The accounting policies and financial reporting practices of the State of Illinois, Illinois Finance Authority (Authority), a component unit of the State of Illinois, conform to generally accepted accounting principles (GAAP), as promulgated in pronouncements of the Governmental Accounting Standards Board (GASB).

(d) Cash and Cash Equivalents

For the purposes 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) Restricted Assets

Certain resources have been classified as restricted assets on the statement of net position because their use is limited by applicable bank and loan agreements. See notes on cash and investments (Note 3), long-term obligations (Note 9), revenue bonds payable (Note 10) and commitments and contingencies (Note 13) for additional disclosures.

(f) 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.

(g) Unamortized Issuance Costs, Issuance Premium, and Unearned Revenue

The Authority is amortizing issuance costs, issuance premiums and fee revenue from bond issues over the life of the bond issues using the approximate effective interest method. Amounts are presented net of accumulated amortization in the Statement of Net Position.

(h) Unamortized Loss on Early Extinguishment

The Authority is amortizing a loss on the refunding of several of its non-asset bonds in the Bond Fund over the lesser of the term of the old debt or the new debt using the straight-line method. The unamortized loss is presented as a contra liability to the new debt.

(i) 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.

(j) 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 12 to the financial statements.

Capitalization thresholds and the estimated useful lives are as follows:

Furniture and equipment	$500	5 years
Computer equipment	$5,000	5 years
Software	$10,000	3 years

(k) Vacation and Sick Leave

Effective July 1, 2011, a new vacation and sick leave pay policy was implemented. Under the new policy, the Authority's employees 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 under 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, 2013, consisted of the following:

Balance June 30, 2012	Earned	Paid	Balance June 30, 2013	Due Within One Year
$ 74,081	$ 81,472	$ 74,988	$ 80,565	$ 80,565

(l) Termination Benefits

Separation agreements the Authority agreed to with an employee granted her severance benefits. These benefits include continued payments of the employee's salary and health premiums for several months. The cost has been 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 2013 is $22,815.

(m) Net Position

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

Net Investment in Capital Assets - 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.

Restricted - This consists of net position that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first, then unrestricted resources when they are needed. As of June 30, 2013, the Authority had restricted net position of $26,723,075 of which $17,851,862 is restricted by enabling legislation.

Unrestricted - This consists of net position that does not meet the definition of "restricted" or "net investment in capital assets."

(n) 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.

(o) 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.

(p) 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. Neither the Authority, 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, 2013, the aggregate amount of conduit debt outstanding is approximately $24.57 billion.

(q) Adoption of New Accounting Principles

The Authority implemented the following Governmental Accounting Standards Board (GASB) Statements effective July 1, 2012: Statement No. 60, *Accounting and*

Financial Reporting for Service Concession Arrangements; Statement No. 61, *The Financial Reporting Entity: Omnibus-amendment of GASB Statements No. 14 and No. 34;* Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements;* and, Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.*

(3) CASH AND INVESTMENTS

Cash and Investments as of June 30, 2013 are classified in the accompanying basic financial statements as follows:

Cash and cash equivalents - unrestricted	$ 61,813,784
Cash and cash equivalents - restricted current assets	15,281,290
Cash and cash equivalents - restricted noncurrent assets	18,445,612
Investments - unrestricted	85,000
Investments - restricted current assets	42,755,362
Investments - restricted noncurrent assets	56,689,231
Total	$195,070,279

Cash and investments as of June 30, 2013 consist of the following:

Deposits with financial institutions	$ 3,296,564
Deposits with State of Illinois Treasurer	17,845,862
Investments	173,927,853
Total	$ 195,070,279

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

(a) Federal Government Securities, including securities of the federal agencies;
(b) Securities guaranteed by the federal government;
(c) Savings accounts, certificates of deposit, time deposits in banks or savings and loans insured by the Federal Deposit Insurance Corporation (FDIC) and 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 or 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 advice 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 Funds

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 five years or less unless approved by the Executive Director.

As of June 30, 2013, the Weighted Average Maturities of the Authority's investments were:

Investment Type	June 30, 2013	Weighted Average Maturity (in years)
Federal agency securities	$ 60,637,957	1.32
State investment pool (Illinois Funds)	54,113,168	0.11
Money market funds	12,005,103	N/A
Investment contracts (Bond Fund)	7,522,972	8.66
Forward delivery agreements:		
Money market funds	753,623	N/A
Federal agency securities	31,283,661	0.16
Repurchase agreements	7,611,369	0.003
Total	$ 173,927,853	

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:

Investment Type	June 30, 2013	AAA	AA+	A-1+	Not Rated
Federal agency securities	$ 60,637,957	$ -	$ 60,637,957	$ -	$ -
State investment pool	54,113,168	54,113,168	-	-	-
Money market funds	2,484,977	2,484,977	-	-	-
Held by bond trustee:					
Money market funds	9,520,126	9,520,126	-	-	-
Investment contracts (Bond Fund)	7,522,972	-	-	-	7,522,972
Forward delivery agreements:					
Money market funds	753,623	753,623	-	-	-
Federal agency securities	31,283,661	-	31,283,661	-	-
Repurchase agreements	7,611,369	-	7,611,369	-	-
Total	$ 173,927,853	$ 66,871,894	$ 99,532,987	$ -	$ 7,522,972

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:

a) 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.

b) 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.

c) 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, 2013, 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
Illinois Funds	Investment Pool	$ 54,113,168
Goldman Sachs Financial Square Treasury Obligations	Mutual Fund	$ 8,681,626

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) Federal 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, 2013, 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.

As of June 30, 2013, all of the Authority's investments were backed by U.S. Government Treasuries held in the name of the Authority.

The Illinois Funds is an external investment pool administered by the State Treasurer. 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. 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, 2013, the Authority had invested $7,611,369 under these agreements. The underlying securities are held by the Bank of America's safekeeping department.

(4) SECURITIES LENDING TRANSACTION

The 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 2013, Deutsche Bank AG lent U.S. Treasury and U.S. Agency 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 aggregated market value of the loaned securities. Loans are marked to market daily. If the market value of collateral falls below 100%, the borrower must provide additional collateral to raise the market value to 100%.

The State Treasurer did not impose any restrictions during Fiscal Year 2013 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. 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 2013 resulting from a default of the borrowers or Deutsche Bank AG.

During Fiscal Year 2013, 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 the 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, 2013 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 $6,880,000 and $5,312,000, respectively, as of June 30, 2013.

(5) BONDS 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 two federal programs, the State Energy Program under the American Recovery and Reinvestment Act accounted for in the Illinois Energy Fund and the Intermediary Relending Program accounted for in the Rural Development Revolving Loan Fund. Bonds 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. Total loan outstanding as of June 30, 2013, were $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 the 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, 2013, were $5,300,240.

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 E.D.A. 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, 2013, were $91,484. The E.D.A Title IX Restricted Revolving loans are fully reserved.

In Fiscal Year 2012, the Authority decided to discontinue 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.

The Rural Development Revolving Loan Program

The Rural Development Revolving Loan Program participates with the 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, 2013, were $246,141.

Fire Truck Revolving Loan Program

This program provides zero interest rate loans for the purchase of fire trucks by fire departments, fire protection districts, or township fire departments. Public Act 97-900 effective August 6, 2012 expanded this program 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 $250,000 and must be repaid within 20 years. A loan for the purchase of brush trucks may not exceed $100,000 per truck. The program is funded by a transfer of $19,000,000 from the State of Illinois and administered by the Authority. Total loans outstanding as of June 30, 2013, were $18,532,024. As of June 30, 2013, no loans had been made under this program for brush trucks.

Ambulance Revolving Loan Program

This program provides zero interest rate loans for the purchase of ambulances by fire departments, fire protection districts, township fire departments, and non-profit ambulance services. The loans may not exceed $100,000 and must be repaid within 10 years. The program is funded by an appropriation of $4,000,000 received by the State of Illinois and administered by the Authority. Total loans outstanding as of June 30, 2013, were $510,240.

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. Total loans outstanding as of June 30, 2013, were $188,820.

Bond Bank Lending Program

This program facilitates the financing needs of a broad array of governmental units located throughout the State. 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. The program is funded by issuing Moral Obligation Revenue Bonds (Note 10). Total loans outstanding as of June 30, 2013, were $29,861,337.

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 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, 2013, were $68,222,172.

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, 2013, were $1,489,068.

Allowance for Doubtful Accounts

The allowance for doubtful accounts for all loans receivable and notes receivable at June 30, 2013, is comprised of two components. 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. Loans originated by the predecessor Illinois Rural Bond Bank, Loans to the State of Illinois and Component Units of the State of Illinois, 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 on prior experience is zero.

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
(A Component Unit of the State of Illinois)
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

(6) GUARANTEE RECEIVABLES

Guarantee receivables result from amounts due to the Authority after it has paid a guarantee claim. Activity related to guarantee receivables for the year ended June 30, 2013, 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 end of year	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, 2013, is the difference between the guarantee payments made and the Authority's estimation of the value of any collateral securing the guarantee.

(7) INVESTMENTS IN PARTNERSHIPS AND COMPANIES

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 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 sold all of its salable portfolio. The Authority has 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.

(8) INTERFUND BALANCES AND ACTIVITY

a) Balance due from/to other funds

The following balances represent amounts due from Other Major and Other Nonmajor funds as of June 30, 2013:

Funds	Due From: Other Major Funds	Due From: Other Nonmajor Funds	Description / Purpose
General Operating Fund	$ -	$ 7,668	Due from Rural Development Revolving Loan Fund for the payment of administrative costs.
Nonmajor funds	15,268	-	Due from General Operating Fund for the receipt of loan payments from Industrial Rural Bond Bank (IRBB) borrowers.
Total	$ 15,268	$ 7,668	

The following balances represent amounts due to Other Major and Other Nonmajor funds for the fiscal year ended June 30, 2013:

Funds	Due to: Other Major Funds	Due to: Other Nonmajor Funds	Description / Purpose
Nonmajor Funds	$ 7,668	$ -	Due to the General Operating Fund for the payment of administrative costs.
General Operating Fund	-	15,268	Due to the IRBB Special Reserve Fund for the receipt of borrowers' loan payment.
Total	$ 7,668	$ 15,268	

b) Transfers to/from other funds

Interfund transfers for the year ended June 30, 2013, were as follows:

	Transfers to		
Fund	Other Major Funds	Other Nonmajor Funds	Description / Purpose
General Operating Fund	$ -	$ 9,500	Transfer from the Credit Enhancement Fund for excess program funds.
General Operating Fund	-	186,601	Transfer from the E.D.A. Title IX Restricted Revolving Loan Fund for excess program funds.
General Operating Fund	-	190,673	Transfer from the Venture Investment Fund for excess program funds.
Total	$ -	$ 386,774	

	Transfers from		
Fund	Other Major Funds	Other Nonmajor Funds	Description / Purpose
Credit Enhancement Fund	$ 9,500	$ -	Transfer to the General Operating Fund for excess program funds.
E.D.A Title IX Restricted Revolving Loan Fund	186,601	-	Transfer to the General Operating Fund for excess program funds.
Venture Investment Fund	190,673	-	Transfer to the General Operating Fund for excess program funds.
Total	$ 386,774	$ -	

(9) LONG-TERM OBLIGATIONS

Intermediary Relending Program

The predecessor authorities (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 IRP fund 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.

Long-term debt is summarized as follows:

	Balance June 30, 2012	Repayments	Balance June 30, 2013	Due Within One Year
Rural Development Revolving Loan	$ 545,493	$ 58,220	$ 487,273	$ 58,802

Principal and interest payments of long-term debt at June 30, 2013, are due as follows:

	Principal	Interest	Total
Year ending June 30:			
2014	$ 58,802	$ 4,873	$ 63,675
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 - 2021	187,323	3,760	191,083
	$ 487,273	$ 22,185	$ 509,458

Fire Truck Revolving Loan and Ambulance Revolving Loan

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 Fire Prevention Fund and Build Illinois Bond Fund loaned $9 million and $10 million, respectively, to the Authority to grant interest-free or 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 $250,000. Repayment period for each loan may not exceed 20 years and requires a minimum of 5% of the principal amount borrowed each year.

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 Fire Prevention Fund loaned $4 million to the Authority to grant interest-free or 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.

Public Act 97-901 effective January 1, 2013, requires the State Fire Marshal to transfer to the Authority all moneys in the Fire Truck Revolving Loan Fund and Ambulance Revolving Loan Fund, provided the Authority and the State Fire Marshal enter into an intergovernmental agreement to use the moneys solely for the purposes of the programs. The Act also requires the State Fire Marshal to pay to the Authority all future moneys deposited into the Fire Truck Revolving Loan Fund and Ambulance Revolving Loan Fund. As of June 30, 2013, the Authority and the State Fire Marshal were negotiating the terms of the intergovernmental agreement.

Due to primary government is summarized as follows:

	Balance June 30, 2012	Additions	Repayments	Balance June 30, 2013	Due Within One Year
Fire Truck Revolving Loans	$16,140,930	$ 3,620,000	$1,228,906	$18,532,024	$1,433,544
Ambulance Revolving Loans	671,227	-	160,987	510,240	94,320
	$16,812,157	$ 3,620,000	$1,389,893	$19,042,264	$1,527,864

Principal payments of due to primary government at June 30, 2013, are due as follows:

	Fire Truck Revolving Loan	Ambulance Revolving Loan	Total
Year ending June 30:			
2014	$ 1,433,544	$ 94,320	$ 1,527,864
2015	1,433,544	94,320	1,527,864
2016	1,375,444	74,320	1,449,764
2017	1,375,444	74,320	1,449,764
2018	1,375,444	74,320	1,449,764
2019 - 2023	6,243,814	98,640	6,342,454
2024 - 2028	4,020,049	-	4,020,049
2029 - 2033	1,274,741	-	1,274,741
	$ 18,532,024	$ 510,240	$ 19,042,264

(10) REVENUE BONDS PAYABLE

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 2040. Annual principal and interest payments on the bonds are expected to require approximately 100% of these loan revenues. The assets of the Bond Fund are therefore classified as restricted assets on the Statement of Net Position.

All bonds outstanding at June 30, 2013, 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.

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. The 1992B Revenue bonds through the 2009 Revenue Bonds and the Illinois Medical District Commission are considered moral obligation revenue bonds. The revenue bonds of the component units and primary government were not issued with the State's moral obligation pledge attached. Bonds payable at June 30, 2013, are comprised of the following individual issues:

1992B Revenue Bonds - original issue $4,975,000, dated December 1, 1992, provides for serial retirement of principal on February 1, and interest payable on February 1 and August 1 of each year at rates of 4.00-6.75%. Final maturity is February 1, 2018.

1993B Revenue Bonds - original issue $9,450,000, dated December 1, 1993, provides for serial retirement of principal on February 1, and interest payable on February 1 and August 1 of each year at rates of 3.75-5.75%. Final maturity is February 1, 2016.

1995A Revenue Bonds - original issue $1,700,000, dated May 1, 1995, provides for serial retirement of principal on February 1, and interest payable on February 1 and August 1 of each year at rates of 4.40-6.10%. Final maturity is February 1, 2016.

1997B Revenue Bonds - original issue $2,935,000, dated December 1, 1997, provides for serial retirement of principal beginning February 1, 1999 and every February 1 thereafter, and interest payable on February 1 and August 1 of each year at rates of 4.05-5.35%. Final maturity is February 1, 2023.

1998A Revenue Bonds - original issue $9,940,000, dated June 1, 1998, provides for serial retirement of principal beginning February 1, 1999 and every February 1 thereafter, and interest payable on February 1 and August 1 of each year at rates of 3.80-5.32%. Final maturity is February 1, 2024.

1998B Revenue Bonds - original issue $3,710,000, dated December 1, 1998, provides for serial retirement of principal beginning February 1, 2000 and every February 1 thereafter, and interest payable on February 1 and August 1 of each year at rates of 3.50-5.15%. Final maturity is February 1, 2024.

1999A Revenue Bonds - original issue $2,520,000, dated June 1, 1999, provides for serial retirement of principal beginning February 1, 2000 and every February 1 thereafter, and interest payable on February 1 and August 1 of each year at rates of 3.45-5.50%. Final maturity is February 1, 2029.

2000A Revenue Bonds - original issue $5,145,000, dated June 1, 2000, provides for serial retirement of principal beginning February 1, 2001 and every February 1 thereafter, and interest payable on February 1 and August 1 of each year at rates of 4.65-6.00%. Final maturity is February 1, 2031.

2000B Revenue Bonds - original issue $735,000, dated December 1, 2000, provides for serial retirement of principal beginning February 1, 2002 and every February 1 thereafter, and interest payable on February 1 and August 1 of each year at rates of 4.40-5.55%. Final maturity is February 1, 2025.

2001A Revenue Bonds - original issue $3,625,000, dated July 1, 2001, provides for serial retirement of principal beginning February 1, 2002 and every February 1 thereafter, and interest payable on February 1 and August 1 of each year at rates of 3.00-5.35%. Final maturity is February 1, 2024.

2001B Revenue Bonds - original issue $5,545,000, dated December 1, 2001, provides for serial retirement of principal beginning February 1, 2003 and every February 1 thereafter, and interest payable on February 1 and August 1 of each year at rates of 2.55-5.35%. Final maturity is February 1, 2031.

2002A Revenue Bonds - original issue $1,180,000, dated June 1, 2002, provides for serial retirement of principal beginning February 1, 2003 and every February 1 thereafter, and interest payable on February 1 and August 1 of each year at rates of 1.60-5.20%. Final maturity is February 1, 2022.

2003A Revenue Bonds - original issue $11,740,000, dated June 1, 2003, provides for serial retirement of principal beginning February 1, 2004 and every February 1 thereafter, and interest payable on February 1 and August 1 of each year at rates of 1.00-4.15%. Final maturity is February 1, 2021.

2003B Revenue Bonds - original issue $10,700,000, dated September 1, 2003, provides for serial retirement of principal beginning February 1, 2004 and every February 1 thereafter, and interest payable on February 1 and August 1 of each year at rates of 1.10-5.20%. Final maturity is February 1, 2024.

2004A Revenue Bonds - original issue $2,640,000, dated August 1, 2004, provides for serial retirement of principal beginning February 1, 2005 and every February 1 thereafter, and interest payable on February 1 and August 1 of each year at rates of 1.45-5.00%. Final maturity is February 1, 2024.

2006A Revenue Bonds - original issue $11,505,000, dated January 1, 2006, provides for serial retirement of principal beginning February 1, 2007 and every February 1 thereafter, and interest payable on February 1 and August 1 of each year at rates of 3.30-4.85%. Final maturity is February 1, 2031.

2006B Revenue Bonds - original issue $1,915,000, dated August 3, 2006, provides for serial retirement of principal beginning February 1, 2007 and every February 1 thereafter, and interest payable on February 1 and August 1 of each year at rates of 3.75-4.90%. Final maturity is February 1, 2036.

2007A Revenue Bonds - original issue $6,455,000, dated August 16, 2007, provides for serial retirement of principal beginning February 1, 2008 and every February 1 thereafter, and interest payable on February 1 and August 1 of each year at rates of 3.70-4.85%. Final maturity is February 1, 2039.

2007B Revenue Bonds - original issue $2,590,000, dated January 24, 2008, provides for serial retirement of principal beginning February 1, 2009 and every February 1 thereafter, and interest payable on February 1 and August 1 of each year at rates of 2.85-4.70%. Final maturity is February 1, 2038.

2008A Revenue Bonds - original issue $1,800,000, dated July 22, 2008, provides for serial retirement of principal beginning February 1, 2009 and every February 1 thereafter, and interest payable on February 1 and August 1 of each year at rates of 4.125-5.125%. Final maturity is February 1, 2039.

2009A Revenue Bonds - original issue $4,460,000, dated December 4, 2009, provides for serial retirement of principal beginning February 1, 2011 and every February 1 thereafter, and interest payable on February 1 and August 1 of each year at rates of 1.90-5.375%. Final maturity is February 1, 2040.

Revenue bonds issued for the benefit of other agencies and component units of the State of Illinois:

Northern Illinois University, Series 1999 - original issue $20,000,000, dated February 1, 1999, provides for serial retirement of principal beginning September 1, 2000 and every September 1 thereafter, and interest payable March 1 and September 1 of each year at rates of 4.30% to 5.00%. Final maturity is September 1, 2024.

State of Illinois Revolving Fund, Series 2002 (Clean Water) - original issue $150,000,000, dated June 27, 2002, provides for serial retirement of principal beginning March 1, 2003 and every September 1 and March 1, thereafter, and interest payable on March 1 and September 1 of each year at rates of 3.25% to 5.5%. Final maturity is March 1, 2020.

State of Illinois Revolving Fund, Series 2004 (Clean Water) - original issue $130,000,000, dated May 20, 2004, provides for serial retirement of principal beginning March 1, 2005 and every September 1 and March 1, thereafter, and interest payable on March 1 and September 1 of each year at rates of 3.25% to 5.25%. Final maturity is September 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.

The future debt service requirements for revenue bonds as of June 30, 2013, including interest payments are as follows:

	Total Revenue Bonds		
Fiscal Period Ending June 30,	Principal	Interest	Total
2014	$ 21,338,075	$ 9,779,972	$ 31,118,047
2015	21,265,300	8,706,748	29,972,048
2016	21,682,800	7,636,190	29,318,990
2017	20,337,700	6,548,200	26,885,900
2018	20,075,000	5,522,970	25,597,970
2019-2023	56,222,000	15,851,068	72,073,068
2024-2028	20,525,000	6,798,896	27,323,896
2029-2033	14,550,000	2,145,739	16,695,739
2034-2038	1,680,000	360,955	2,040,955
2039-2041	420,000	23,451	443,451
	$ 198,095,875	$ 63,374,189	$ 261,470,064

The following is a summary of the revenue bond transactions of the Authority for the year ended June 30, 2013:

Bond Series	Balance June 30, 2012	Additions	Retirements	Balance June 30, 2013	Amount Due Within One Year
1992 B Bonds	$ 75,000	$ -	$ (10,000)	$ 65,000	$ 10,000
1993 B Bonds	105,000	-	(60,000)	45,000	15,000
1995 A Bonds	50,000	-	(5,000)	45,000	10,000
1997 B Bonds	445,000	-	(100,000)	345,000	25,000
1998 A Bonds	630,000	-	(285,000)	345,000	45,000
1998 B Bonds	1,040,000	-	(140,000)	900,000	75,000
1999 A Bonds	765,000	-	(100,000)	665,000	60,000
2000 A Bonds	160,000	-	(15,000)	145,000	20,000
2000 B Bonds	460,000	-	(40,000)	420,000	40,000
2001 A Bonds	740,000	-	(145,000)	595,000	150,000
2001 B Bonds	1,410,000	-	(90,000)	1,320,000	90,000
2002 A Bonds	325,000	-	(25,000)	300,000	25,000
2003 A Bonds	4,600,000	-	(750,000)	3,850,000	146,000
2003 B Bonds	6,020,000	-	(1,695,000)	4,325,000	435,000
2004 A Bonds	1,530,000	-	(155,000)	1,375,000	160,000
2006 A Bonds	8,990,000	-	(570,000)	8,420,000	620,000
2006 B Bonds	1,655,000	-	(60,000)	1,595,000	65,000
2007 A Bonds	5,495,000	-	(225,000)	5,270,000	230,000
2007 B Bonds	1,800,000	-	(210,000)	1,590,000	220,000

Bond Series	Balance June 30, 2012	Additions	Retirements	Balance June 30, 2013	Amount Due Within One Year
2008 A Bonds	$ 1,660,000	$ -	$ (50,000)	$ 1,610,000	$ 50,000
2009 A Bonds	4,175,000	-	(160,000)	4,015,000	170,000
Northern Illinois University					
Series 1999	13,170,000	-	(755,000)	12,415,000	785,000
Clean Water Series 2002	56,515,000	-	(10,265,000)	46,250,000	8,785,000
Clean Water Series 2004	69,810,000	-	(8,290,000)	61,520,000	8,115,000
Illinois Medical District Commission					
Series 2006A	7,070,000	-	(230,000)	6,840,000	240,000
Series 2006B	32,050,000	-	(450,000)	31,600,000	600,000
Northern Illinois University					
Foundation Series 2006	2,695,920	-	(587,045)	2,108,875	152,075
Northern Illinois University					
Foundation Series 2013	-	122,000	-	122,000	-
Unamortized issuance					
premium	3,163,885	-	(738,927)	2,424,958	624,283
Total	$ 226,604,805	$ 122,000	$ (26,205,972)	$ 200,520,833	$ 21,962,358

The bond closing fees received from local governments are reported as unearned revenue and amortized over the term of the bond issues. The amortized revenues are included in the miscellaneous income. The following changes in unearned revenue occurred during the period:

	Balance June 30, 2012	Addition	Amortization	Balance June 30, 2013	Due Within One Year
Bond closing fees	$ 363,636	$ -	$ 61,375	$ 302,261	$ 53,796

(11) LEASE COMMITMENTS

The Authority is obligated under long-term operating leases for one (Chicago) of its four offices. Total rent expense for the year ended June 30, 2013 was $258,647.

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 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, 2013 is $143,731, which represents the current year amortization. Rent expense for the year ended June 30, 2013 is $229,729.

The Authority entered into an Interagency Agreement with the Department of Commerce and Economic Opportunity to lease office space in Springfield free of charge, effective April 29, 2009 until June 30, 2016.

The Authority entered into a lease agreement to lease facilities at 100 Southwest Water Street; Peoria, Illinois 61602. The term of the lease expires in August 2014. Annual base rent payments are approximately $5,532.

The Authority entered into a lease agreement to lease facilities at 2929 Broadway, Suite #7B, Mount Vernon; Illinois 62864. The term of the lease expires in June 2014. Annual base rent payments are approximately $12,677.

The Authority entered into a lease agreement to lease two digital copiers for its Chicago and Mt. Vernon offices for 36 months. The term of the lease expires in September 2013. Annual base rental payments are approximately $10,709.

The future minimum lease commitments as of June 30, 2013 are as follows:

Fiscal Year Ending June 30,	Amount
2014	$ 168,237
2015	25,725
Total	$ 193,962

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, 2013, no amounts have been drawn against this letter of credit.

(12) CAPITAL ASSETS

	Balance June 30, 2012	Additions	Deletions	Balance June 30, 2013
Cost				
Furniture and equipment	$ 224,898	$ -	$ 1,858	$ 223,040
Computers	134,622	-	10,934	123,688
Software	183,646	56,742	-	240,388
Total capital assets being depreciated	$ 543,166	$ 56,742	$ 12,792	$ 587,116
Accumulated Depreciation				
Furniture and equipment	$ 216,064	$ 3,048	$ 1,858	$ 217,254
Computers	40,396	4,869	10,934	34,331
Software	178,374	40,536	-	218,910
Total capital assets being depreciated	$ 434,834	$ 48,453	$ 12,792	$ 470,495
Capital assets, net of depreciation	$ 108,332	$ 8,289	$ -	$ 116,621

The Authority's records were reconciled to the records maintained by the Comptroller of the State of Illinois.

(13) COMMITMENTS AND CONTINGENCIES

(a) 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 prior Illinois Development Finance Authority if the company liable under the bond indenture were to default on repayment of the bond. At June 30, 2013, restricted demand deposits totaling $599,750 were held in the Credit Enhancement Fund for this purpose.

(b) Federally Assisted Programs

The Authority participates in the following federally assisted programs:

<u>E.D.A. Title IX–Restricted Revolving Loan Program</u>

The Authority decided to discontinue 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.

<u>FmHA–Intermediary Relending Program</u>

Demand deposits of $1,942,637 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 $231,373 in net loans receivable which secure the loans of the intermediary relending program.

<u>Department of Energy – State Energy Program (American Recovery and Reinvestment Act)</u>

The Authority received a grant from the Department of Commerce and Economic Opportunity 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. Demand deposits of $2,341,500 are held in this fund.

(c) Loan Guarantees

The Authority has a contingent liability regarding the loan guarantees outstanding at June 30, 2013. 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 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, 2013		
	Illinois Agricultural Loan Guarantee Fund	Illinois Farmer Agribusiness Loan Guarantee Fund	Total
Cash Deposits	$ 10,069,384	$ 7,776,478	$ 17,845,862
Maximum Outstanding Guarantees:			
State Guarantee Program for Restructuring Agricultural Debt	$ 13,029,843	$ -	$ 13,029,843
Specialized Livestock Loan Guarantee Program	-	3,333,728	3,333,728
Young Farmer Loan Guarantee Program	-	1,572,606	1,572,606
Farmer and Agri-Business Loan Guarantee Program	-	7,256,577	7,256,577
Farm Purchase	-	944,285	944,285
Total	$ 13,029,843	$ 13,107,196	$ 26,137,039

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 deposits totaling $11,673,088 at June 30, 2013.

(14) RISK FINANCING ACTIVITIES

The Authority is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors or omissions; injuries to employees; and, natural disasters which are covered through purchase of commercial insurance. The Authority accounts for its risk financing activities in the General Operating Fund. There has been no significant reduction or changes in coverage during the current year nor have settlements exceeded insurance coverage in any of the last three years.

(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 Fiscal Year 2013 were:

YEAR	MAXIMUM CONTRIBUTION	AGE 50 CATCH UP
2013	$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 2013 were $91,195 and $88,331 respectively.

(16) TRANSACTIONS WITH THE PRIMARY GOVERNMENT

The Authority, a body corporate and politic, is a component unit of the State of Illinois. 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 the primary government, including component units of the State of Illinois. This includes moral obligation bonds which were inherited from the former Illinois Development Finance Authority used to finance a primary government project. The Authority also administers programs for the State and the related State appropriations for the programs.

Due to primary government - The Office of the Auditor General engaged an external audit firm to perform an audit of the Illinois Finance Authority's basic financial statements. The Operating General Fund of the Authority is indebted with the Office of the Auditor General in the amount of $184,640 for audit related fees.

Due to primary government - The Bond Fund monies held are at the loan subaccount to support the debt service payment. These moneys are payments received from the borrowers to cover the debt service payment. Total amount held as of June 30, 2013 is $241,172.

Due to State - The Fire Truck Revolving Loan Fund is established as a special fund in the State Treasury in accordance with the State Finance Act (30 ILCS 105/5.598). The Fire Prevention Fund and Build Illinois Bond Fund loaned $9 million and $10 million, respectively, to the Authority to grant interest-free or 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. Total current portion due is $1,433,544 and total long-term due is $17,098,480.

Due to State - The Ambulance Revolving Loan Fund is established as a special fund in the State Treasury in accordance with the State Finance Act (30 ILCS 105/5.667). The Fire Prevention Fund loaned $4 million to the Authority to grant interest-free or 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. Total current portion due is $94,320 and total long-term due is $415,920.

Public Act 97-901 effective January 1, 2013 requires the State Fire Marshal to transfer to the Authority all moneys in the Fire Truck Revolving Loan Fund and the Ambulance Revolving Loan Fund, provided the Authority and the State Fire Marshal enter into an intergovernmental agreement to use the moneys solely for the purposes of the Fire Truck and Ambulance Revolving Loan programs. The Act also requires the State Fire Marshal to pay to the Authority all future moneys deposited into the Fire Truck and Ambulance Revolving Loan Fund. As of June 30, 2013, the Authority and the State Fire Marshal were negotiating the terms of the intergovernmental agreement.

(17) SUBSEQUENT EVENTS

In August 2013, the Authority formed the Illinois Finance Authority Development Fund NFP, an Illinois not for profit 501(c)(3) for the purpose of creating a Community Development Entity (a "CDE") to apply for an allocation of New Market Tax Credits with the Community Development Financial Institutions Fund. The Illinois Finance Authority Development Fund NFP will assist the Authority with the funding and administration of the New Markets Tax Credit Program. The purpose of this program is to create new ways to finance projects throughout the State of Illinois in accordance with the Authority's corporate purpose.

On January 3, 2014, the U.S. Department of the Treasury certified the Illinois Finance Authority Development Fund NFP as a CDE.

In September 2013, the Authority agreed to the early termination of the Debt Service Reserve Forward Delivery Agreement with AIG Financial Products Corp. The Amalgamated Bank of Chicago, as Trustee, had entered into the Agreement with AIG Financial Products Corp. in May 2004 in connection with the State of Illinois Revolving Fund Revenue Bonds, Series 2004 bond issue. A portion of the Bonds were used to fund a Debt Service Reserve Fund. Under the terms of the Agreement, the funds held by the Trustee in the Debt Service Reserve fund for the 2004 bonds were guaranteed to earn 5.065% per annum. As part of the early termination of the Debt Service Reserve Forward Delivery Agreement, AIG Financial Products Corp. agreed to pay the Trustee, for deposit into the Debt Service Reserve Fund securing the 2004 bonds, a termination amount of $2,842,000. Under the terms of the Agreement, if the Agreement was terminated prior to the Scheduled Termination Date of September 1, 2023 a termination amount would be due. The amount of the termination amount is the economic equivalent of the investment rights under the agreement for the period commencing on the termination date of the agreement and terminating on the Scheduled Termination Date.

In October 2013, the Authority received approval from the State of Illinois, Department of Commerce and Economic Opportunity for a change in the Grant Expiration Date to June 30, 2014 for a grant received from the Department's Revolving Loan Fund Program. The Authority received this grant to advance energy efficiency and renewable energy projects throughout the State of Illinois and prior to the change had an expiration date of March 31, 2013.

In October of 2012, the State of Illinois announced the Clean Water Initiative. This Initiative was authorized to use the assets of both the Clean Water and Drinking Water Programs in future leveraged bond sales to increase the size of these programs over the next several fiscal years. The Authority issued $141,700,000 of State of Illinois Clean Water Initiative Revolving Fund Revenue Bonds on December 5, 2013. The proceeds (including a premium of $16,874,821) provided $34,290,000 for Clean Water State Match, $18,325,000 for Drinking Water State Match, and the remainders of the funds were used to refinance the 2002 and 2004 Bonds that were previously issued for program needs.

(18) NEW GOVERNMENTAL ACCOUNTING STANDARDS

The Governmental Accounting Standards Board (GASB) has issued the following Statements:

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, 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. The Authority is required to implement this Statement for the year ending June 30, 2014. Management has not yet completed its assessment of the impact of this GASB Statement on the Authority's financial statements.

Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62.* The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving guidance that resulted from issuance of two pronouncements, Statements No. 54 and No. 62. The Authority is required to implement this Statement for the year ending June 30, 2014. Management has not yet completed its assessment of the impact of this GASB Statement on the Authority's financial statements.

Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25.* The objective of this statement is to improve financial reporting by State and local governmental pension plans. This statement replaces the requirements of Statements No. 25 and No. 50, as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. The Authority is required to implement this Statement for the year ending June 30, 2014. Management has not yet completed its assessment of the impact of this GASB Statement on the Authority's financial statements.

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. The Authority is required to implement this Statement for the year ending June 30, 2015. Management has not yet completed its assessment of the impact of this GASB Statement on the Authority's financial statements.

Statement No. 69, *Governmental Combinations and Disposals of Government Operations.* This statement establishes accounting and financial standards related to government combinations and disposals of government operations. Authority is required to implement this Statement for the year ending June 30, 2015. Management has not yet completed its assessment of the impact of this GASB Statement on the Authority's financial statements.

Statement No. 70*, Accounting and Financial Reporting for Nonexchange Financial Guarantees.* This statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data indicate that it is more likely than not that the government will be required to make a payment on the guarantee. Authority is required to implement this Statement for the year ending June 30, 2014. Management has not yet completed its assessment of the impact of this GASB Statement on the Authority's financial statements.

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. Management has not yet completed its assessment of the impact of this GASB Statement on the Authority's financial statements.

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
(A Component Unit of the State of Illinois)
Combining Statement of Net Position - Nonmajor Funds
June 30, 2013

Assets	**Industrial Revenue Bond Insurance Fund**	**Venture Investment Fund**	**Credit Enhancement Fund**	**Illinois Agricultural Loan Guarantee Fund**	**Illinois Farmer Agribusiness Loan Guarantee Fund**
Current assets:					
Cash and cash equivalents - unrestricted	$11,673,088	$ -	$ -	$ -	$ -
Restricted current assets					
Cash and cash equivalents	-	-	-	-	-
Securities lending collateral equity with the State Treasurer	-	-	-	6,880,000	5,312,000
Accrued interest receivable	-	-	-	-	-
Loans receivable	-	-	-	-	-
Allowance for doubtful accounts	-	-	-	-	-
Receivables					
Loans receivable	-	-	-	-	-
Due from other funds	-	-	-	-	-
Interest and other	-	-	-	-	-
Total current assets	11,673,088	-	-	6,880,000	5,312,000
Noncurrent assets:					
Restricted noncurrent assets					
Cash and cash equivalents	-	-	599,750	10,069,384	7,776,478
Interest receivable	-	-	-	3,000	3,000
Guarantee payments receivable	28,402	-	-	170,902	623,107
Allowance for doubtful accounts	(28,402)	-	-	(170,902)	(623,107)
Loans receivable	-	-	-	-	-
Allowance for doubtful accounts	-	-	-	-	-
Loans receivable	-	-	-	-	-
Total noncurrent assets	-	-	599,750	10,072,384	7,779,478
Total assets	11,673,088	-	599,750	16,952,384	13,091,478
Liabilities					
Current liabilities:					
Obligation under securities lending of the State Treasurer	-	-	-	6,880,000	5,312,000
Accrued interest payable	-	-	-	-	-
Due to primary government	-	-	-	-	-
Due to other funds short-term	-	-	-	-	-
Current portion of long-term debt	-	-	-	-	-
Total current liabilities	-	-	-	6,880,000	5,312,000
Noncurrent liabilities:					
Noncurrent portion of long-term debt	-	-	-	-	-
Due to primary government	-	-	-	-	-
Total noncurrent liabilities	-	-	-	-	-
Total liabilities	-	-	-	6,880,000	5,312,000
Net Position					
Restricted:					
Enabling legislation	-	-	-	10,072,384	7,779,478
Externally imposed by creditors and grantors	-	-	599,750	-	-
Unrestricted	11,673,088	-	-	-	-
Total net position	$ 11,673,088	$ -	$ 599,750	$ 10,072,384	$ 7,779,478

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
(A Component Unit of the State of Illinois)
Combining Statement of Net Position - Nonmajor Funds (continued)
June 30, 2013

Assets	IRBB Special Reserve Fund	E.D.A. Title IX Restricted Revolving Loan Fund	Rural Development Revolving Loan Fund	Illinois Housing Partnership Program	Fire Truck Revolving Loan Fund
Current assets:					
Cash and cash equivalents - unrestricted	$ 2,719,473	$ -	$ -	$ 1,831,205	$ -
Restricted current assets					
Cash and cash equivalents	-	-	1,942,637	-	-
Securities lending collateral equity with the State Treasurer	-	-	-	-	-
Accrued interest receivable	-	-	4,123	-	-
Loans receivable	-	91,484	19,074	-	1,433,544
Allowance for doubtful accounts	-	(91,484)	-	-	-
Receivables					
Loans receivable	31,132	-	-	-	-
Due from other funds	15,268	-	-	-	-
Interest and other	943	-	-	-	-
Total current assets	2,766,816	-	1,965,834	1,831,205	1,433,544
Noncurrent assets:					
Restricted noncurrent assets					
Cash and cash equivalents	-	-	-	-	-
Interest receivable	-	-	-	-	-
Guarantee payments receivable	-	-	-	-	-
Allowance for doubtful accounts	-	-	-	-	-
Loans receivable	-	-	227,067	-	17,098,480
Allowance for doubtful accounts	-	-	(14,768)	-	-
Loans receivable	157,688	-		3,000,000	-
Total noncurrent assets	157,688	-	212,299	3,000,000	17,098,480
Total assets	2,924,504	-	2,178,133	4,831,205	18,532,024
Liabilities					
Current liabilities:					
Obligation under securities lending of the State Treasurer	-	-	-	-	-
Accrued interest payable	-	-	2,891	-	-
Due to primary government	-	-	-	-	1,433,544
Due to other funds short-term	-	-	7,668	-	-
Current portion of long-term debt	-	-	58,802	-	-
Total current liabilities	-	-	69,361	-	1,433,544
Noncurrent liabilities:					
Noncurrent portion of long-term debt	-	-	428,471	-	-
Due to primary government	-	-	-	-	17,098,480
Total noncurrent liabilities	-	-	428,471	-	17,098,480
Total liabilities	-	-	497,832	-	18,532,024
Net Position					
Restricted:					
Enabling legislation	-	-	-	-	-
Externally imposed by creditors and grantors	-	-	1,680,301	-	-
Unrestricted	2,924,504	-	-	4,831,205	-
Total net position	$ 2,924,504	$ -	$ 1,680,301	$ 4,831,205	$ -

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
(A Component Unit of the State of Illinois)
Combining Statement of Net Position - Nonmajor Funds (continued)
June 30, 2013

Assets	**Renewable Energy Development Fund**	**Ambulance Revolving Loan Fund**	**Illinois Energy Fund**	**Total Nonmajor**
Current assets:				
Cash and cash equivalents - unrestricted	$ -	$ -	$ -	$ 16,223,766
Restricted current assets				
Cash and cash equivalents	718,650	-	2,341,500	5,002,787
Securities lending collateral equity with the State Treasurer	-	-	-	12,192,000
Accrued interest receivable	182	-	-	4,305
Loans receivable	92,475	94,320	-	1,730,897
Allowance for doubtful accounts	-	-	-	(91,484)
Receivables				
Loans receivable	-	-	-	31,132
Due from other funds	-	-	-	15,268
Interest and other	-	-	-	943
Total current assets	811,307	94,320	2,341,500	35,109,614
Noncurrent assets:				
Restricted noncurrent assets				
Cash and cash equivalents	-	-	-	18,445,612
Interest receivable	-	-	-	6,000
Guarantee payments receivable	-	-	-	822,411
Allowance for doubtful accounts	-	-	-	(822,411)
Loans receivable	1,396,593	415,920	-	19,138,060
Allowance for doubtful accounts	-	-	-	(14,768)
Loans receivable	-	-	-	3,157,688
Total noncurrent assets	1,396,593	415,920	-	40,732,592
Total assets	2,207,900	510,240	2,341,500	75,842,206
Liabilities				
Current liabilities:				
Obligation under securities lending of the State Treasurer	-	-	-	12,192,000
Accrued interest payable	-	-	-	2,891
Due to primary government	-	94,320	-	1,527,864
Due to other funds short-term	-	-	-	7,668
Current portion of long-term debt	-	-	-	58,802
Total current liabilities	-	94,320	-	13,789,225
Noncurrent liabilities:				
Noncurrent portion of long-term debt	-	-	-	428,471
Due to primary government	-	415,920	-	17,514,400
Total noncurrent liabilities	-	415,920	-	17,942,871
Total liabilities	-	510,240	-	31,732,096
Net Position				
Restricted:				
Enabling legislation	-	-	-	17,851,862
Externally imposed by creditors and grantors	2,207,900	-	2,341,500	6,829,451
Unrestricted	-	-	-	19,428,797
Total net position	$ 2,207,900	$ -	$ 2,341,500	$ 44,110,110

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
(A Component Unit of the State of Illinois)
Combining Statement of Revenues, Expenses, and Changes in Fund Net Position - Nonmajor Funds
For the Year Ended June 30, 2013

	Industrial Revenue Bond Insurance Fund	Venture Capital Fund	Credit Enhancement Fund	Illinois Agricultural Loan Guarantee Fund	Illinois Farmer Agribusiness Loan Guarantee Fund
Operating revenues:					
Interest on loans	$ -	$ -	$ -	$ -	$ -
Miscellaneous	-	-	-	-	-
Total operating revenues	-	-	-	-	-
Operating expenses:					
Professional services	-	-	-	-	-
Interest expense	-	-	-	-	-
Total operating expenses	-	-	-	-	-
Operating income	-	-	-	-	-
Nonoperating revenues:					
Grant income	-	-	-	-	-
Interest and investment income	8,210	190,673	-	38,834	29,993
Total nonoperating income	8,210	190,673	-	38,834	29,993
Transfers:					
Transfers to other fund	-	(190,673)	(9,500)	-	-
Total transfers	-	(190,673)	(9,500)	-	-
Change in net position	8,210	-	(9,500)	38,834	29,993
Net position - beginning of year	11,664,878	-	609,250	10,033,550	7,749,485
Net position - end of year	$ 11,673,088	$ -	$ 599,750	$ 10,072,384	$ 7,779,478

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
(A Component Unit of the State of Illinois)
Combining Statement of Revenues, Expenses, and Changes in Fund Net Position - Nonmajor Funds (continued)
For the Year Ended June 30, 2013

	IRBB Special Reserve Fund	E.D.A. Title IX Restricted Revolving Loan Fund	Rural Development Revolving Loan Fund	Illinois Housing Partnership Program	Fire Truck Revolving Loan Fund
Operating revenues:					
Interest on loans	$ 10,917	$ -	$ 14,265	$ -	$ -
Miscellaneous	-	-	1,243	-	-
Total operating revenues	10,917	-	15,508	-	-
Operating expenses:					
Professional services	-	25	7,668	-	-
Interest expense	-	-	5,621	-	-
Total operating expenses	-	25	13,289	-	-
Operating income	10,917	(25)	2,219	-	-
Nonoperating revenues:					
Grant income	-	-	-	-	-
Interest and investment income	2,016	-	208	1,594	-
Total nonoperating income	2,016	-	208	1,594	-
Transfers:					
Transfers to other fund	-	(186,601)	-	-	-
Total transfers	-	(186,601)	-	-	-
Change in net position	12,933	(186,626)	2,427	1,594	-
Net position - beginning of year	2,911,571	186,626	1,677,874	4,829,611	-
Net position - end of year	$ 2,924,504	$ -	$ 1,680,301	$ 4,831,205	$ -

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
(A Component Unit of the State of Illinois)
Combining Statement of Revenues, Expenses, and Changes in Fund Net Position - Nonmajor Funds (continued)
For the Year Ended June 30, 2013

	Renewable Energy Development Fund	Ambulance Revolving Loan Fund	Illinois Energy Fund	Total Nonmajor
Operating revenues:				
Interest on loans	$ 30,724	$ -	$ -	$ 55,906
Miscellaneous	-	-	-	1,243
Total operating revenues	30,724	-	-	57,149
Operating expenses:				
Professional services	-	-	14	7,707
Interest expense	-	-	-	5,621
Total operating expenses	-	-	14	13,328
Operating income	30,724	-	(14)	43,821
Nonoperating revenues:				
Grant income	-	-	841,399	841,399
Interest and investment income	65	-	115	271,708
Total nonoperating income	65	-	841,514	1,113,107
Transfers:				
Transfers to other fund	-	-	-	(386,774)
Total transfers	-	-	-	(386,774)
Change in net position	30,789	-	841,500	770,154
Net position - beginning of year	2,177,111	-	1,500,000	43,339,956
Net position - end of year	$ 2,207,900	$ -	$ 2,341,500	$ 44,110,110

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, 2013

	Industrial Revenue Bond Insurance Fund	Venture Investment Fund	Credit Enhancement Fund	Illinois Agricultural Loan Guarantee Fund
Cash flows from operating activities:				
Cash received for fees and other	$ -	$ -	$ -	$ -
Cash payments to suppliers for goods and services	-	-	-	-
Net cash used in operating activities	-	-	-	-
Cash flows from noncapital financing activities:				
Bonds and notes principal payments	-	-	-	-
Interest payments	-	-	-	-
Principal paid to State	-	-	-	-
Due from other funds	-	-	-	-
Grants received	-	-	-	-
Proceeds from State of Illinois to make loans	-	-	-	-
Due to other funds	-	-	-	-
Transfers to other funds	-	(190,673)	(9,500)	-
Net cash used in noncapital financing activities	-	(190,673)	(9,500)	-
Cash flows from investing activities:				
Cash received on loan receivables	-	-	-	-
Cash payments for loan receivables	-	-	-	-
Cash received for interest on loans	-	-	-	-
Interest and dividends on investments	8,210	190,673	-	38,834
Net cash provided by investing activities	8,210	190,673	-	38,834
Net increase (decrease) in cash and cash equivalents	8,210	-	(9,500)	38,834
Cash and cash equivalents - beginning of year	11,664,878	-	609,250	10,030,550
Cash and cash equivalents - end of year	$ 11,673,088	$ -	$ 599,750	$ 10,069,384
Reconciliation of operating income (loss) to net cash used in operating activities:				
Operating income (loss)	$ -	$ -	$ -	$ -
Adjustments to reconcile operating income (loss) to net cash used in operating activities:				
Interest on loans	-	-	-	-
Interest expense	-	-	-	-
Accounts receivable	-	-	-	-
Net cash used in operating activities	$ -	$ -	$ -	$ -

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
(A Component Unit of the State of Illinois)
Combining Statement of Cash Flows - Nonmajor Funds (continued)
For the Year Ended June 30, 2013

	Illinois Farmer Agribusiness Loan Guarantee Fund	IRBB Special Reserve Fund	E.D.A. Title IX Restricted Revolving Loan Fund	Rural Development Revolving Loan Fund	Illinois Housing Partnership Program
Cash flows from operating activities:					
Cash received for fees and other	$ -	$ -	$ -	$ 106	$ -
Cash payments to suppliers for goods and services	-	-	(25)	(7,668)	-
Net cash used in operating activities	-	-	(25)	(7,562)	-
Cash flows from noncapital financing activities:					
Bonds and notes principal payments	-	-	-	(58,220)	-
Interest payments	-	-	-	(5,457)	-
Principal paid to State	-	-	-	-	-
Due from other funds	-	(40,686)	(562,527)	(7,668)	-
Grants received	-	-	-	-	-
Proceeds from State of Illinois to make loans	-	-	-	-	-
Due to other funds	-	25,418	-	7,668	-
Transfers to other funds	-	-	(186,601)	-	-
Net cash used in noncapital financing activities	-	(15,268)	(749,128)	(63,677)	-
Cash flows from investing activities:					
Cash received on loan receivables	-	29,603	-	18,927	-
Cash payments for loan receivables	-	-	-	-	-
Cash received for interest on loans	-	11,082	-	14,520	-
Interest and dividends on investments	29,993	2,016	-	208	1,594
Net cash provided by investing activities	29,993	42,701	-	33,655	1,594
Net increase (decrease) in cash and cash equivalents	29,993	27,433	(749,153)	(37,584)	1,594
Cash and cash equivalents - beginning of year	7,746,485	2,692,040	749,153	1,980,221	1,829,611
Cash and cash equivalents - end of year	$ 7,776,478	$2,719,473	$ -	$ 1,942,637	$ 1,831,205
Reconciliation of operating income to net cash used in operating activities:					
Operating income (loss)	$ -	$ 10,917	$ (25)	$ 2,219	$ -
Adjustments to reconcile operating income (loss) to net cash used in operating activities:					
Interest on loans	-	(10,917)	-	(14,265)	-
Interest expense	-	-	-	5,621	-
Accounts receivable	-	-	-	(1,137)	-
Net cash used in operating activities	$ -	$ -	$ (25)	$ (7,562)	$ -

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
(A Component Unit of the State of Illinois)
Combining Statement of Cash Flows - Nonmajor Funds (continued)
For the Year Ended June 30, 2013

	Fire Truck Revolving Loan Fund	Renewable Energy Development Fund	Ambulance Revolving Loan Fund	Illinois Energy Fund	Total Nonmajor
Cash flows from operating activities:					
Cash received for fees and other	$ -	$ -	$ -	$ -	$ 106
Cash payments to suppliers for goods and services	-	-	-	(14)	(7,707)
Net cash used in operating activities	-	-	-	(14)	(7,601)
Cash flows from noncapital financing activities:					
Bonds and notes principal payments	-	-	-	-	(58,220)
Interest payments	-	-	-	-	(5,457)
Principal paid to State	(1,228,906)	-	(160,987)		(1,389,893)
Due from other funds	-	-	-	-	(610,881)
Grants received	-	-	-	841,399	841,399
Proceeds from State of Illinois to make loans	3,620,000	-	-	-	3,620,000
Due to other funds	-	-	-	1,500,000	1,533,086
Transfers to other funds	-	-	-	-	(386,774)
Net cash used in noncapital financing activities	2,391,094	-	(160,987)	2,341,399	3,543,260
Cash flows from investing activities:					
Cash received on loan receivables	1,228,906	90,685	160,987	-	1,529,108
Cash payments for loan receivables	(3,620,000)	-	-	-	(3,620,000)
Cash received for interest on loans	-	30,727	-	-	56,329
Interest and dividends on investments	-	65	-	115	271,708
Net cash provided by investing activities	(2,391,094)	121,477	160,987	115	(1,762,855)
Net increase (decrease) in cash and cash equivalents	-	121,477	-	2,341,500	1,772,804
Cash and cash equivalents - beginning of year	-	597,173	-	-	37,899,361
Cash and cash equivalents - end of year	$ -	$ 718,650	$ -	$ 2,341,500	$ 39,672,165
Reconciliation of operating income to net cash used in operating activities:					
Operating income (loss)	$ -	$ 30,724	$ -	$ (14)	$ 43,821
Adjustments to reconcile operating income (loss) to net cash used in operating activities:					
Interest on loans	-	(30,724)	-	-	(55,906)
Interest expense	-	-	-	-	5,621
Accounts receivable	-	-	-	-	(1,137)
Net cash used in operating activities	$ -	$ -	$ -	$ (14)	$ (7,601)

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

Ms. Gila Bronner
Chairwoman of the Audit Committee
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, 2013, 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 January 15, 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 significant deficiencies.

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

333 SOUTH DES PLAINES STREET, SUITE 2-N CHICAGO, IL 60661 tel: 312.876.1900 fax: 312.876.1911

prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a 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 items 2013-001 and 2013-002 to be material weaknesses.

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 deficiencies described in the accompanying schedule of findings as items 2013-003 and 2013-004 to be significant deficiencies.

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 are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as items 2013-001 and 2013-003.

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

The State of Illinois, Illinois Finance Authority's responses to the findings identified in our audit are 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
January 15, 2014

2013-001. **FINDING** (Inadequate Monitoring of Borrower Compliance)

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.

These bonds or loan agreements include:

1) Revenue bonds issued for the Bond Bank Lending Program to support the financing needs of local governments within the State;
2) Revenue bonds issued for the benefit of other agencies and component units of the State, as required to be shown under Interpretation No. 2 of the Governmental Accounting Standards Board;
3) Fire Truck Revolving Loans;
4) Ambulance Revolving Loans; and,
5) Participation Loans.

Bond Bank Lending Program

During covenant compliance testing of the 53 local government unit borrowers within the Bond Bank Lending Program and covenants within the Bond Bank Revenue Bond Series 1999A, 2003A, 2003B, 2006A, and 2006B bonds, the auditors noted the following:

- For 53 of 53 (100%) local government borrowers tested, the Authority could not provide the local government's latest audited financial statements.

  The Local Government Securities Purchase Agreement, Section 4(c), requires the local government borrower to provide its annual audited financial statements to the Authority no later than 180 days following the conclusion of the entity's fiscal year.

- For 22 of 53 (42%) local government borrowers tested, the Authority could not provide the required written notification to the Bond Trustee and the Authority from the local government borrower about whether the local government reasonably believes that it will or will not have sufficient moneys to make its next two regularly scheduled principal and interest payments.

  The Local Government Securities Purchase Agreement, Section 4(a), requires the local government borrower to provide the Authority with written notification concerning its ability to continue paying the next two regularly scheduled debt service obligations when it makes a regular principal and interest payment on the outstanding indebtedness.

2013-001. **FINDING** (Inadequate Monitoring of Borrower Compliance) (continued)

- The Authority did not have a process or procedure to monitor local government borrower compliance for the 34 local governments with the debt service coverage ratio requirement of 1.25 to 1 (annual revenues ÷ total annual debt service). After receiving a confirmation from the Authority of this condition, the auditors sought the audited financial statements of the 34 local government borrowers from the Office of the State Comptroller. The auditors noted the following:

    - From a review of each entity's financial reports, it appears 19 of 34 (56%) of the local government borrowers may not have met the required debt service coverage.

    - The auditors were unable to make any determination for five of the 34 (15%) local government borrowers, as they had not filed their financial statements with the Office of the State Comptroller.

  The Official Statement, Appendix C, states these local governments have covenanted that they will maintain a debt service coverage ratio of, at least, 1.25 to 1.

  According to bond documents, the failure of the local government borrowers to comply with these requirements does not trigger a call on any security under the Authority's Indenture. Rather, noncompliance with the provisions of this Appendix represents that the local government borrower is not complying with its own ordinances and the alternative revenue bond requirements of the Local Government Debt Reform Act (30 ILCS 350/15(c)).

As part of the security offered to bondholders for timely payment, the bonds issued to fund the Bond Bank Lending Program are secured by a moral obligation of the State of Illinois, as provided for under the Illinois Rural Bond Bank Act, in the original instance, and the Illinois Finance Authority Act (Act) (20 ILCS 3501/801-40(w)) now. Under the Act, the revenue bonds are secured by a non-binding covenant where, in the event the Authority determines projected receipts from each local government's trust estate are insufficient for the payment of principal and interest during the next State fiscal year, the Chair of the Authority's Board of Directors shall certify the shortfall necessary to continue the bond's scheduled debt service payments to the Governor. In turn, the Governor shall submit the amount to the General Assembly, which may appropriate moneys to make up the shortfall. However, the General Assembly is only morally, not legally, obligated to make any such appropriation.

2013-001. **FINDING** (Inadequate Monitoring of Borrower Compliance) (continued)

Revenue Bonds Issued on Behalf of Other State Agencies and Component Units

During covenant compliance testing of the Series 2002 and 2004 bonds issued on behalf of the State of Illinois, Environmental Protection Agency's Water Revolving Fund, the auditors noted the following:

- The Authority did not complete an Officer's Certificate for the $500,000 deposit made into the Rebate Fund for the Series 2004 bonds.

  The Series 2004 Bond Indenture, Section 4.7, requires that all deposits into the Rebate Fund are made pursuant to an Officer's Certificate from the Authority, at the request of the State of Illinois, Environmental Protection Agency, authorizing the deposit.

During covenant compliance testing of the Series 2006A and 2006B bonds issued on behalf of the Illinois Medical District Commission (Commission), the auditors noted the following:

- The Authority did not ensure the Bond Trustee deposited $65,000 into the Replacement Reserve Fund, as the cash balance in the replacement reserve fund was below $325,000.

  The Series 2006 Indenture of Trust, Section 5.07(b)(vii), requires a monthly transfer of one-twelfth of the Replacement Reserve Deposit Requirement of $65,000 annually to the Replacement Reserve Fund so long as the Replacement Reserve Fund does not exceed $325,000.

- The Authority did not seek payment of delinquent annual fees, totaling $60,000, from the Commission. The auditors noted the Authority had not billed the Commission for the $15,000 fee due for 2009, 2010, 2011, and 2012.

  The Loan and Security Agreement, Section 4.6, requires the Commission pay the Authority an ongoing fee of $15,000 on or before January 1 of each year.

- The Authority did not demand reimbursement of legal fees, totaling $60,000, incurred in relation to the Commission's prior year noncompliance with its Debt Service Coverage Ratio requirement.

2013-001. **FINDING** (Inadequate Monitoring of Borrower Compliance) (continued)

The Loan and Security Agreement, Section 7.3, states, "In the event the Commission should default under any of the provisions of this Agreement, or the Trustee in good faith believe (sic) that the Commission is in substantial danger of defaulting hereunder and the Issuer or the Trustee should employ attorneys or incur other expenses for the collection of payments due under this Agreement or the enforcement of the performance or observance of any obligation or agreement on the part of the Commission herein contained or for the further protection of the Trust Estate, the Commission agrees that it will on demand therefore (sic) pay to the Issuer, the Trustee or the State the reasonable fees and expenses of such attorneys and such other expenses so incurred by the Issuer, the Trustee or the State, to the extent permitted by Law."

- The Authority did not obtain an Officer's Certificate from the Commission upon its submission of unaudited financial statements to the Authority for the quarter ended September 30, 2012.

  The Loan and Security Agreement, Section 5.1(a), requires the Commission provide quarterly unaudited financial statements within 60 days after the end of each quarter accompanied by an Officer's Certificate stating the financial statements fairly represent the Commission's financial condition and results of operations.

During covenant compliance testing of the Series 2006 bonds issued on behalf of the Northern Illinois University Foundation (Foundation), the auditors noted the following:

- The Authority did not obtain an annual certificate from the Foundation in relation to their compliance with the bond covenants.

  The Bond and Loan Agreement, Section 5.10, requires the Foundation review its activity during the preceding calendar year to determine whether or not it has complied, in all material respects, with the provisions of the Bond and Loan Agreement and has kept and fulfilled all of the covenants. Following this review, the Foundation is to certify the results of the review to the Authority on or before January 31 of the successive year.

- The Notice of Payment Bond Interest and/or Principal report (Form C-08) for the Foundation's February 21, 2013 interest payment, totaling $49,137, was submitted to the Office of the State Comptroller on September 9, 2013, 168 days late. In addition, the Form C-08 was improperly completed, as the Form C-08 did not indicate the bond issue title and series for the payment.

2013-001. **FINDING** (Inadequate Monitoring of Borrower Compliance) (continued)

The Statewide Accounting Management System, Procedure 31.30.20, requires the Authority prepare and submit an accurate Form C-08 report to the Office of the State Comptroller within 30 days from the date the voucher is processed for payment when the Authority is the "paying agent" to bondholders. For situations where the bond trustees are the "paying agent," a Form C-08 report should be prepared and submitted within 15 days of the Authority's receipt of the trustee's monthly statement.

Fire Truck and Ambulance Revolving Loan Programs

During covenant compliance testing of 33 loan agreements within the fire truck and ambulance revolving loan programs, the auditors noted the following:

- For 28 of 33 (85%) loans tested, the Authority could not provide a current certificate of insurance coverage for the fire truck or ambulance securing the loan agreement. The auditors noted 11 instances where the Authority did not have any record of insurance coverage on the fire truck or ambulance and 17 instances where the Authority's records indicated the insurance had lapsed between December 31, 2006 and June 12, 2012.

  The Loan Agreement, Section 8.5, requires the borrower both continuously keep the fire truck or ambulance securing the loan insured during the term of the loan agreement and furnish the Authority with insurance coverage certificates evidencing sufficient insurance coverage throughout the term of the agreement.

- For 17 of 33 (52%) loans tested, the Authority could not provide an original copy of title to the fire truck or ambulance securing the loan.

  The Loan Agreement, Section 4.2, requires the borrower to file with the Authority the title of the fire truck or ambulance securing the loan within 30 days after the borrower accepts delivery of the fire truck or ambulance.

- For 33 of 33 (100%) loans tested, the Authority could not provide the fire truck or ambulance's Acceptance Memorandum from the State of Illinois, Office of the State Fire Marshal (Fire Marshal). The Acceptance Memorandum is a certificate issued by the Fire Marshal indicating they have conducted a review and approved the fire truck or ambulance for purchase by the borrower.

2013-001. **FINDING** (Inadequate Monitoring of Borrower Compliance) (continued)

> The Loan Agreement, Section 4.1, requires the borrower to deliver to the Authority the Acceptance Memorandum after the borrower's acquisition of the property.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Authority establish and maintain a system, or systems, of fiscal and administrative controls to provide assurance assets are safeguarded against loss. Good internal controls include monitoring borrowers' compliance with specific bond or loan covenants to reduce risk to the Authority. In addition, good internal controls include establishing and maintaining an active, continuing program for the economical and efficient management of the Authority's records.

Authority officials stated the Authority is still in the process of implementing an organized records management system capable of identifying where the specific records requested are retained within the Authority's files. In addition, some covenants and loan provisions might be outdated.

Failure to monitor borrower compliance with significant bond covenants could result in the Authority not identifying borrower noncompliance, potentially impacting the ability of the Authority to protect State assets. Further, failure to establish and maintain a record management system capable of identifying the specific location of the Authority's records limits the utility of records retained by the Authority. (Finding Code No. 2013-001, 12-1)

RECOMMENDATION

We recommend the Authority develop, establish, and maintain a recordkeeping system capable of documenting receipt of the required bond and loan documents, which is capable of identifying the location of documents retained by the Authority. Further, we recommend the Authority monitor borrower compliance with significant covenants to detect and appropriately respond to any noted noncompliance.

AUTHORITY RESPONSE

The Authority accepts this finding. The Authority recognizes the importance of covenant compliance and will use this opportunity to accelerate implementation of its electronic record management system. In response to a similar finding in FY12, the Authority increased its management and compliance monitoring resources by 60%. These additional resources have already improved the Authority's covenant compliance process and results.

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
(A Component Unit of the State of Illinois)
SCHEDULE OF FINDINGS
June 30, 2013

2013-002. **FINDING** (Inadequate Financial Reporting Controls)

The Illinois Finance Authority (Authority) did not exercise adequate internal control over financial reporting.

The Authority's financial statements include transactions related to revenue bonds issued for the benefit of other agencies and component units of the State of Illinois, which are required to be shown on the face of the Authority's financial statements pursuant to Interpretation No. 2 of the Governmental Accounting Standards Board, *Disclosure of Conduit Debt Obligations*. As a result of this accounting interpretation, transactions and events occurring at other agencies and component units of the State of Illinois need to be continuously monitored by the Authority for any potential impact on the Authority's financial statements.

During testing, the auditors noted the Authority did not adequately monitor subsequent event transactions occurring at a primary government agency for any potential impact on the Authority's financial statements. The auditors identified a subsequent event material to the Authority's financial statements which was not identified by the Authority's internal control structure. The auditors proposed an adjusting journal entry of $1,227,090 to correct an understated arbitrage liability accrual, which the Authority subsequently recorded in its financial statements.

Governmental Accounting Standards Board Statement No. 56, Paragraphs 8 and 9, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, notes that an event or transaction occurring after the date of the Statement of Net Position, but prior to the issuance of the financial statements, requiring an adjustment to the financial statements is a recognized event. A recognized event is an event providing "additional evidence with respect to conditions that existed at the date of the Statement of Net Position and affect the estimates inherent in the process of preparing financial statements. All information that becomes available prior to the issuance of the financial statements should be used in evaluating the conditions on which the estimates were based. The financial statements should be adjusted for any changes in estimates resulting from the use of such evidence."

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Authority establish and maintain a system, or systems, of fiscal and administrative controls to provide assurance revenues, expenditures, and resources applicable to operations are properly recorded and accounted for to permit the preparation of reliable financial reports and to maintain accountability over the State's resources.

2013-002. **<u>FINDING</u>** (Inadequate Financial Reporting Controls) (continued)

Authority officials stated that financial information for the outstanding bonds of the Illinois Environmental Protection Agency (IEPA) is reconciled with IEPA quarterly and annually. In past years, these reconciliations omitted a review of arbitrage calculations.

Failure to adequately monitor subsequent events at other agencies and component units of the State of Illinois could have, if not detected and corrected, resulted in a material misstatement of the Authority's financial statements and reduced the overall reliability of Statewide financial reporting. (Finding Code No. 2013-002)

RECOMMENDATION

We recommend the Authority enhance their internal controls and communications with other agencies and component units of the State of Illinois for continuously monitoring events and transactions that could impact the Authority's financial statements.

AUTHORITY RESPONSE

The Authority agrees with the Auditor's recommendation. For 2014, the Authority will incorporate an annual review of arbitrage calculations into its annual reconciliation procedures for the IEPA bonds pursuant to the Intergovernmental Agreement between the Authority and IEPA.

2013-003. **FINDING** (Failure to Enter into an Intergovernmental Agreement)

The Illinois Finance Authority (Authority) did not timely enter into an intergovernmental agreement with the State of Illinois, Office of the State Fire Marshal (Fire Marshal), impacting the disclosure of the amount due to the primary government at June 30, 2013.

During fieldwork, the auditors noted the following:

- The Authority had not entered into an agreement with the Fire Marshal by June 30, 2013, six months after the General Assembly mandated the Authority and Fire Marshal enter into an intergovernmental agreement to allow for the transfer of moneys within the Fire Truck Revolving Loan Fund, the Fire Station Revolving Loan Fund, and the Ambulance Revolving Loan Fund "as soon as practicable" after January 1, 2013.

  The Illinois Finance Authority Act (Act) (20 ILCS 3501/825-80(c), 20 ILCS 3501/825-81(b), and 20 ILCS 3501/825-85(b)) requires all moneys on deposit in the Fire Truck Revolving Loan Fund, the Fire Station Revolving Loan Fund, and the Ambulance Revolving Loan Fund within the State Treasury be paid to the Authority as soon as practicable after January 1, 2013, provided the Authority and Fire Marshal entered into an intergovernmental agreement that provides the Authority will use the transferred moneys solely for purposes authorized by the Act and sets forth procedures between the Authority and Fire Marshal to administer the use of the transferred moneys.

- During reviews of the draft financial statements, the auditors noted the Authority 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. After notification from the auditors, the Authority drafted additional disclosures for inclusion within the Authority's financial statements.

  Governmental Accounting Standards Board Statement No. 34, Paragraph 113, *Basic Financial Statements*, states the Authority's notes to the financial statements should communicate information essential for the fair presentation of the financial statements not displayed on the face of the financial statements.

2013-003. **<u>FINDING</u>** (Failure to Enter into an Intergovernmental Agreement) (continued)

As of June 30, 2013, the Ambulance Revolving Loan Fund (Fund 334) was holding a cash balance of $3,661,593 and the Fire Truck Revolving Loan Fund (Fund 572) was holding a cash balance of $2,556,576. Further, Public Act 97-0731 appropriated an additional $8,000,000 to the Fire Marshal for transfer to the Fire Truck Revolving Loan Fund and the Ambulance Revolving Loan Fund during Fiscal Year 2013. The entire amount was reappropriated by the General Assembly to the Fire Marshal in Fiscal Year 2014.

Authority officials stated the Authority and the Fire Marshal have not agreed to the terms for inclusion within the intergovernmental agreement.

Failure by the Authority and the Fire Marshal to enter into an intergovernmental agreement represents noncompliance with the Illinois Finance Authority Act and may limit the ability of the Authority and Fire Marshal to provide loans to enable local governments and non-profit ambulance services to obtain financing to purchase fire trucks, brush trucks, fire stations, and ambulances. In addition, failure to disclose the impact of this condition within the notes to the financial statements negatively impacts the fair presentation of the Authority's financial statements. (Finding Code No. 2013-003)

RECOMMENDATION

We recommend the Authority continue to work with the Fire Marshal to finalize the terms of the intergovernmental agreement. In addition, the Authority should implement internal controls to review the notes to the Authority's financial statements to ensure the disclosures are appropriate, accurate, and fairly presented in accordance with generally accepted accounting principles.

AUTHORITY RESPONSE

The Authority accepts this finding.

2013-004. **FINDING** (Failure to Write-Off Uncollectible Balances)

The Illinois Finance Authority (Authority) has loan and guarantee receivables 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. The Authority resubmitted its write-off request to the Office of the Attorney General during Fiscal Year 2012. In addition, the Authority is in the process of putting together a new request to the Office of the Attorney General to write off the remaining investments in partnerships with no value.

The significant effect of not writing 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. 2013-004)

2013-004. **FINDING** (Failure to Write-Off Uncollectible Balances) (continued)

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. While most of these uncollectable debts predate the Authority, they are fully reserved for and have no additional impact on the Authority's financial Statements. Nevertheless, the Authority will seek write-off certifications from the Attorney General; pending which the Authority will continue to record uncollectible debts in accordance with applicable accounting and financial reporting standards.

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
(A Component Unit of the State of Illinois)
SCHEDULE OF FINDINGS
June 30, 2013

PRIOR FINDING NOT REPEATED

A. **FINDING** (Inadequate Controls over Financial Reporting)

During the prior audit, the Illinois Finance Authority (Authority) did not exercise adequate internal control over financial reporting. Specifically, the Authority did not develop a basis or prepare any calculations for the estimated arbitrage liability accrual or accrue interest income within the debt service fund of the State of Illinois Revolving Fund, Series 2004 (Clean Water) issuance. (Finding Code No. 12-2)

Status: Not Repeated

During the current engagement, the auditors noted the Authority developed a calculation for its estimate of arbitrage liability accrual and accrued interest income 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. However, the auditors noted an internal control over financial reporting weakness described within Finding 2013-002.