STATE OF ILLINOIS
ILLINOIS MEDICAL DISTRICT COMMISSION
(A Component Unit of the State of Illinois)

FINANCIAL AUDIT
AND
COMPLIANCE EXAMINATION
For the Year Ended June 30, 2012

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

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

State of Illinois
Illinois Medical District Commission
(A Component Unit of the State of Illinois)
Financial Audit and Compliance Examination
For the Year Ended June 30, 2012

Table of Contents

State of Illinois
Illinois Medical District Commission
(A Component Unit of the State of Illinois)
Financial Audit and Compliance Examination
For the Year Ended June 30, 2012

Table of Contents (Continued)

State of Illinois
Illinois Medical District Commission
(A Component Unit of the State of Illinois)

Commission Officials

Executive Director	
April 1, 2012 to present	Mr. Warren Ribley
Through March 31, 2012	Mr. Samuel Pruett
Chief Legal Counsel	
January 1, 2013 to present	Vacant
Through December 31, 2012	Mr. Mark Jamil

Commission office is located at:

2100 West Harrison Street
Chicago, Illinois 60612

ILLINOIS MEDICAL DISTRICT COMMISSION

IMDC
2100 W. Harrison Street
Chicago, Illinois 60612-3706

312.738.5800 T
312.738.5801 F
312.738.5304 TDD

www.medicaldistrict.org

January 18, 2013

E. C. Ortiz & Co., LLP
333 S. Des Plaines St., Suite 2-N
Chicago, Illinois 60661

Ladies and Gentlemen:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the Illinois Medical District Commission (Commission). We are responsible for and we have established and maintained an effective system of, internal controls over compliance requirements. We have performed an evaluation of the Commission's compliance with the following assertions during the year ended June 30, 2012. Based on this evaluation, we assert that during the year ended June 30, 2012, the Commission has materially complied with the assertions below.

A. The Commission has obligated, expended, received and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.

B. The Commission has obligated, expended, received and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.

C. The Commission has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations, except as disclosed to the auditors during the engagement.

D. State revenues and receipts collected by the Commission are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.

E. Money or negotiable securities or similar assets handled by the Commission on behalf of the State or held in trust by the

Commission have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

Yours very truly,

Illinois Medical District Commission

Warren Ribley
Executive Director

State of Illinois
Illinois Medical District Commission
(A Component Unit of the State of Illinois)

Compliance Report

Summary

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

Accountants' Reports

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

Summary of Findings

Number of	Current Report	Prior Report
Findings	2	3
Repeated findings	1	2
Prior recommendations implemented or not repeated	2	–

Schedule of Findings

Item No.	Page	Description	Finding Type
		FINDING (*GOVERNMENT AUDITING STANDARDS*)	
12-1	12	Inadequate Controls Over Monitoring of Compliance with Bond Covenants	Material Weakness and Material Noncompliance
		FINDING (STATE COMPLIANCE)	
12-2	17	Noncompliance with the Illinois Procurement Code	Noncompliance and Significant Deficiency

In addition, the following finding which is reported as a current finding relating to *Government Auditing Standards* also meets the reporting requirements for State Compliance.

12-1	12	Inadequate Controls Over Monitoring of Compliance with Bond Covenants	Material Noncompliance and Material Weakness

Compliance Report

Schedule of Findings (Continued)

Item No.	Page	Description	Finding Type
		PRIOR FINDINGS NOT REPEATED	
A	19	Failure to Remit Unexpended Proceeds from the Sale of Commission Property into the Income Fund Held in the State Treasury	
B	19	Noncompliance with Loan and Security Agreement	

Exit Conference

The findings and recommendations appearing in this report were discussed with Commission personnel at an exit conference on January 3, 2013. Attending were:

Illinois Medical District Commission

Warren Ribley, Executive Director
Kim Michael-Lee, Chief Financial Officer
Brian Creek, External Accountant from Borschnack, Pelletier & Co.

Illinois Finance Authority

Chris Meister, Executive Director
Ximena Granda, Assistance Chief Financial Officer

Office of the Auditor General

Jose G. Roa, Audit Manager
Daniel J. Nugent, Audit Manager

E. C. Ortiz & Co., LLP

Leilani N. Rodrigo, Partner
Emily Causon, Manager

The responses to the recommendations were provided by Warren Ribley, Executive Director in a letter dated January 11, 2013.

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

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

Honorable William G. Holland
Auditor General
State of Illinois

and

The Board of Commissioners
Illinois Medical District Commission

Compliance

As Special Assistant Auditors for the Auditor General, we have examined the Illinois Medical District Commission's (a component unit of the State of Illinois) (Commission) compliance with the requirements listed below, as more fully described in the Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide) as adopted by the Auditor General, during the year ended June 30, 2012. The management of the Commission is responsible for compliance with these requirements. Our responsibility is to express an opinion on the Commission's compliance based on our examination.

A. The Commission has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.

B. The Commission has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.

C. The Commission has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.

D. State revenues and receipts collected by the Commission are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.

E. Money or negotiable securities or similar assets handled by the Commission on behalf of the State or held in trust by the Commission have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

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

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

As described in item 12-1 in the accompanying schedule of findings, the Commission did not comply with requirements regarding compliance in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations. Compliance with such requirements is necessary, in our opinion, for the Commission to comply with the requirements listed in the first paragraph of this report.

In our opinion, except for noncompliance described in the preceding paragraph, the Commission complied, in all material respects, with the compliance requirements listed in the first paragraph of this report during the year ended June 30, 2012. However, the results of our procedures disclosed an instance of noncompliance with the requirements, which is required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which is described in the accompanying schedule of findings as item 12-2.

Internal Control

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness and other deficiency that we consider to be a significant deficiency.

A *deficiency in an entity's internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with the requirements listed in the first paragraph of this report on a timely basis. A *material weakness in an entity's internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a requirement listed in the first paragraph of this report will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance as described in the accompanying schedule of findings as item 12-1 to be a material weakness.

A *significant deficiency in an entity's internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings as item 12-2 to be a significant deficiency.

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

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

Supplementary Information for State Compliance Purposes

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Commission's basic financial statements. The accompanying supplementary information State Compliance Schedules 7 through 12 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The accompanying supplementary information State Compliance Schedules 7 through 12 have 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 accompanying supplementary information State Compliance Schedules 7 through 12 is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

We have also previously audited, in accordance with auditing standards generally accepted in the United States of America, the Commission's basic financial statements for the year ended June 30, 2011, and have issued our report thereon dated December 13, 2011, which contained an unqualified opinion on the financial statements of the business-type activities. The accompanying supplementary information for the year ended June 30, 2011 in the State Compliance Schedules 7 through 12 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2011 financial statements. The accompanying supplementary information for the year ended June 30, 2011 in the State Compliance Schedules 7 through 12 has been subjected to the auditing procedures applied in the audit of the 2011 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those statements or to those financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information for the year ended June 30, 2011 in the State Compliance Schedules 7 through 12 is fairly stated in all material respects in relation to the basic financial statements as a whole from which it has been derived.

The accompanying supplementary information in Schedules 1 through 6, Notes to Supplementary Information, and in the Analysis of Operations Section is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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

E. C. Ortiz & Co. LLP

Chicago, Illinois
January 18, 2013

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

The Board of Commissioners
Illinois Medical District Commission

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the business-type activities of the Illinois Medical District Commission (a component unit of the State of Illinois) (Commission), as of and for the year ended June 30, 2012, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated January 18, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings as item 12-1 to be a material weaknesses.

A *significant deficiency* is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings as item 12-2 in the accompanying schedule of findings to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and is described in the accompanying schedule of findings as item 12-1.

The Commission's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Commission's responses and, accordingly, we express no opinion on the responses.

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

E. C. Ortiz & Co. LLP

Chicago, Illinois
January 18, 2013

State of Illinois
Illinois Medical District Commission
(A Component Unit of the State of Illinois)
Schedule of Findings
For the Year Ended June 30, 2012

Current Finding - *Government Auditing Standards*

12-1 - Inadequate Controls Over Monitoring of Compliance with Bond Covenants

The Illinois Medical District Commission (Commission) did not have adequate internal controls for monitoring compliance with covenants and other provisions set forth in various documents related to Illinois Finance Authority (IFA) revenue bonds issued for Commission projects.

On January 31, 2006, the Commission entered into an agreement with IFA to issue, on behalf of the Commission, $40 million of revenue bonds (Series 2006A $7.5 million tax-exempt revenue bonds and Series 2006B $32.5 taxable revenue bonds). The IFA loaned the bond proceeds to the Commission. These revenue bonds are to be repaid from revenues derived from certain revenue bond properties owned by the Commission. This transaction included several covenants set forth in various official documents, namely:

1) Official Statement related to the bond issuance by the IFA;
2) Indenture of Trust between the IFA and the Bond Trustee; and,
3) Loan and Security Agreement between the IFA and the Commission.

During testing of these various official documents, the auditors noted the following:

1) The Commission did not have formal written policies and procedures pertaining to revenue, disbursements, and general compliance as set forth in various official documents.

2) The various official documents contain language and provisions not consistent with either current or past auditing standards or current Commission operations. For instance, the various official documents describe an undertaking by the certified public accountant auditing the Commission's financial statements which were not a part of the auditor engagement letter and are not contemplated by, or described within, professional auditing standards and requirements. Further, the various official documents require submission of an annual balance sheet, statement of income, and cash flows by the Commission; however, the Commission actually prepares a) Statement of Net Assets, b) Statement of Revenues, Expenses, and Changes in Net Assets, and c) Statement of Cash Flows as required by the Governmental Accounting Standards Board.

Current Finding - *Government Auditing Standards* (Continued)

12-1 - Inadequate Controls Over Monitoring of Compliance with Bond Covenants (Continued)

3) The initial debt service coverage ratio (DSCR) calculation for Fiscal Year 2012 was incorrect. Specifically, operating revenues related to revenue property were overstated by about $87,000. After the auditors brought this matter to the attention of the Commission, management adjusted and recalculated the DSCR (further information regarding the DSCR is disclosed in the Commission's financial statements at Note 6).

4) Certain property management and development expenses charged to certain revenue bond properties of the Commission were reimbursed from funds derived from other Commission properties not pledged to bondholders. While the expenses reviewed were allowable, the Commission documentation supporting the basis for allocation of certain costs (i.e. direct maintenance salaries and professional fees) between these properties did not include a detailed monthly review of these costs.

5) The Commission submitted certain reports required by the various official documents that were incomplete, as noted below:

   - Unaudited quarterly financial statements submitted to the Trustee and the IFA on October 18, 2011, January 10, 2012, and April 11, 2012, respectively, did not include a statement of cash flows for the first three quarters; and,

   - The Fiscal Year 2011 annual report submitted to the Trustee and IFA on February 15, 2012 did not include either a statement of revenues and operating expenses of the revenue property or a calculation of DSCR calculated by the certified public accountant auditing the Commission's financial statements.

In addition, the issuance of these bonds resulted in a moral obligation of the State of Illinois, as allowed for under the Illinois Finance Authority Act (Act) (20 ILCS 3501/801-40(w)). Under the Act, the revenue bonds are secured by a non-binding covenant where, in the event the IFA determines projected receipts from the Commission's certain revenue bond properties are insufficient for the payment of principal and interest during the next State fiscal year, the IFA Chairperson shall certify the shortfall necessary to continue the bond's scheduled 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.

Current Finding - *Government Auditing Standards* (Continued)

12-1 - Inadequate Controls Over Monitoring of Compliance with Bond Covenants (Continued)

As a result of the moral obligation covenant within the revenue bond's Official Statement, the Commission entered into an Intergovernmental Agreement on January 31, 2006 with the State of Illinois, by and through the Governor's Office of Management and Budget (GOMB). This agreement sets forth additional reporting requirements between the Commission, IFA, and GOMB related to the provision by the State of its moral obligation.

During testing of the Intergovernmental Agreement, the auditors noted the following:

1) The Intergovernmental Agreement contains language and provisions not consistent with either current or past auditing standards or current Commission operations. For instance, the agreement describes an undertaking by the certified public accountant auditing the Commission's financial statements which were not a part of the auditor engagement letter and are not contemplated by, or described within, professional auditing standards and requirements.

2) The Fiscal Year 2011 annual report submitted to the GOMB on March 7, 2012 did not include a supplemental balance sheet, statement of activities and expenditures, and statement of activities and expenditures, and statement of cash flows of the revenue property or a calculation of DSCR calculated by the certified public accountant auditing the Commission's financial statements.

3) The lease occupancy reports submitted to GOMB for the first and second quarters of Fiscal Year 2012 were submitted 16 and 332 days late, respectively.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001), requires the Commission to establish and maintain a system, or systems, of internal fiscal and administrative controls, which shall provide assurance:

1) resources are utilized effectively, and in compliance with applicable law;
2) obligations are costs are in compliance with applicable law;
3) funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation;
4) revenues, expenditures, and transfers of assets, resources or funds applicable to operations are properly recorded and accounted for to permit preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources; and,

Current Finding - *Government Auditing Standards* (Continued)

12-1 - Inadequate Controls Over Monitoring of Compliance with Bond Covenants (Continued)

5) funds held outside the State Treasury are managed, used and obtained in strict accordance with the terms of their enabling authorities and that no unauthorized funds exist.

The Commission's system of internal controls should include policies and procedures to ensure compliance with loan covenants and agreements. Further, good business practices require monitoring compliance with covenants and agreements that could have a direct and material effect on the Commission's financial statements.

Commission officials stated the process for monitoring compliance with various covenants needs to be improved and they have already underwent a series of changes late in Fiscal Year 2012. Further, they acknowledge certain short comings and indicate corrective action continues to take place. Commission officials note that the error in the debt service ratio calculation occurred because two separate tenants have similar names and payments from one tenant that is not related to the pledged revenue properties was mistakenly included in the calculation.

The Commission's inadequacy of controls to monitor compliance with bond related documents could put the Commission, IFA, and the State at risk. Further, incomplete and untimely submission of required reports results in noncompliance with various agreements entered into by the Commission. (Finding Code No. 12-1)

Recommendation

We recommend the Commission establish adequate internal controls and procedures to monitor and comply with covenants and agreements entered into by the Commission pertaining to the 2006 revenue bonds.

Current Finding - *Government Auditing Standards* (Continued)

12-1 - Inadequate Controls Over Monitoring of Compliance with Bond Covenants (Continued)

Commission Response

The Commission agrees with the finding. Since the installation of new management in the Spring of 2012, the Commission has implemented the following corrective actions:

- Written policies and procedures outlining the actions, filings, statements and reports required to be produced to comply with the various official bond documents have been prepared and approved by the Commission.

- All previously filed incomplete reports for FY 12, required by either the various official bond documents or the Intergovernmental Agreement, have been revised and completed. Additionally all prior fiscal year financial reports required by either the various official bond documents or the Intergovernmental Agreement that were either missing or incomplete have been prepared or revised and filed with the Trustee to the extent possible and practical.

- A waiver was requested and received from the Governor's Office of Management and Budget, the State Representative under the Intergovernmental Agreement, for other omissions that could not be corrected or where the correction was impractical (for example, maintenance schedules on buildings that were never built).

All of these documents have been publicly disclosed to bondholders and any other interested party on the Municipal Securities Rulemaking Board's Electronic Municipal Market Access (EMMA) system. Management believes it is in full compliance with all requirements of the various official bond documents and the Intergovernmental Agreement. Management further believes that adequate controls have been adopted and implemented to insure ongoing compliance.

The finding notes that the various official bond documents and the Intergovernmental Agreement contain language and provisions not consistent with either current or past auditing practices or current Commission operations. Management will work with the Trustee to develop an understanding of the exact nature of the financial reporting statements that will be considered responsive to the requirements of the official bond documents.

State of Illinois
Illinois Medical District Commission
(A Component Unit of the State of Illinois)
Schedule of Findings
For the Year Ended June 30, 2012

Current Finding - State Compliance

12-2 - Noncompliance with the Illinois Procurement Code

The Illinois Medical District Commission (Commission) did not comply with the Illinois Procurement Code.

During our review of 10 contractual agreements, we noted three (30%) contracts, individually exceeding $10,000, totaling $63,000 were filed with the Illinois Office of the Comptroller (Comptroller) 5 to 25 days late. One of these contracts was filed within 40 days of execution, thus an affidavit explaining the untimely filing was also submitted. However, a copy of this affidavit was not filed with the Office of the Auditor General.

The Illinois Procurement Code (Code) (30 ILCS 500/20-80(b)) states that when a grant or contract liability (except contracts paid from personal services and contracts between the State and its employees to defer compensation) exceeding $10,000 is incurred by any State agency, a copy of the contract shall be filed with the Comptroller's Office within 15 days of its execution. Effective August 12, 2012, the law has been revised requiring State agencies to file contracts exceeding $20,000 with the Comptroller within 30 days of execution.

Section 20-80(c) of the Code also states that when a contract has not been filed within 30 days of execution, an affidavit, signed by the chief executive officer of the agency or his or her designee shall be filed, setting forth an explanation of why the contract liability was not filed within 30 days. A copy of the late filing affidavit shall be filed with the Auditor General.

Commission officials stated the delay in filing contracts with the Comptroller and nonfiling of affidavit with the Auditor General were due to oversight.

Failure to file contracts with the Comptroller's Office on a timely basis and nonfiling of affidavit with the Auditor General resulted to noncompliance with the Code. (Finding Code No. 12-2, 11-2, and 10-2)

Recommendation

We recommend the Commission ensure all contracts are filed with the Comptroller and copies of late filing affidavits are submitted to the Auditor General in accordance with the Code.

Current Finding - State Compliance (Continued)

12-2 - Noncompliance with the Illinois Procurement Code (Continued)

Commission Response

The Commission agrees with the finding. The Commission will implement policies to ensure compliance with the provisions of the Illinois Procurement Code as applicable.

Prior Findings Not Repeated

A. Failure to Remit Unexpended Proceeds from the Sale of Commission Property into the Income Fund Held in the State Treasury

The Illinois Medical District Commission (Commission) did not remit unexpended proceeds from the sale of Commission property to the State Treasury for deposit into the Medical Center Commission Income Fund (Income Fund).

During fiscal year 2004, the Commission sold real property held by Commission to the Federal Bureau of Investigation. The proceeds from the sale totaled $10,688,767. As of June 30, 2011, the unexpended portion of these proceeds was $3,877,969 and were not deposited in to the Income Fund.

Status: Not Repeated

The Commission sought legislative action to amend the Illinois Medical District Act (70 ILCS 915/10). On July 18, 2012, Public Act 97-0825 was signed into law, authorizing the Commission to use all money received from the sale or lease of any property. Pursuant to Public Act 97-0825, the Commission is no longer directed to transfer moneys to the Commission's Income Fund and all money received from the sale or lease of properties is now locally held. (Finding Code No. 11-1, 10-1, 09-2, 08-3, 07-8, 06-2, and 05-3)

B. Noncompliance with Loan and Security Agreement

In the prior engagement, the Commission had a fiscal year 2011 debt service coverage ratio of 0.31 from revenue property of $750,512 and principal and interest payments of $2,409,471 resulting to its noncompliance with the terms of the loan and security agreement with the Illinois Finance Authority.

Status: Implemented

During the current engagement, the Commission complied with the debt service coverage ratio requirement of the loan and security agreement. We did, however, note in Finding No. 12-1 that the initial debt service coverage ratio (DSCR) calculation for Fiscal Year 2012 was incorrect. Specifically, operating revenues related to revenue property was overstated by about $87,000. After the auditors brought this matter to the attention of the Commission, management adjusted and recalculated the DSCR (further information regarding the DSCR is disclosed in the Commission's Financial Statements in Note 6). (Finding Code No. 11-3)

State of Illinois
Illinois Medical District Commission
(A Component Unit of the State of Illinois)

Financial Statement Report

Summary

The audit of the accompanying basic financial statements of the Illinois Medical District Commission (Commission) was performed by E. C. Ortiz and Co., LLP.

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

Summary of Findings

The auditors identified matters involving the Commission's internal control over financial reporting that they considered to be a material weakness. The material weakness is described in the accompanying schedule of findings listed in the table of contents as finding 12-1, *Inadequate Controls Over Monitoring of Compliance with Bond Covenants*.

Exit Conference

The findings and recommendations appearing in this report were discussed with Commission personnel at an exit conference on January 3, 2013. Attending were:

<u>Illinois Medical District Commission</u>

Warren Ribley, Executive Director
Kim Michael-Lee, Chief Financial Officer
Brian Creek, External Accountant from Borschnack, Pelletier & Co.

<u>Illinois Finance Authority</u>

Chris Meister, Executive Director
Ximena Granda, Assistance Chief Financial Officer

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

Jose G. Roa, Audit Manager
Daniel J. Nugent, Audit Manager

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

Leilani N. Rodrigo, Partner
Emily Causon, Manager

The responses to the recommendations were provided by Warren Ribley, Executive Director in a letter dated January 11, 2013.

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

Independent Auditors' Report

Honorable William G. Holland
Auditor General
State of Illinois

and

The Board of Commissioners
Illinois Medical District Commission

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the business-type activities of the Illinois Medical District Commission (a component unit of the State of Illinois) (Commission) as of and for the year ended June 30, 2012 which collectively comprise the Commission's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from the Commission's June 30, 2011 financial statements and, in our report dated December 13, 2011 we expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Commission, as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 18, 2013 on our consideration of the Commission'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in

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

accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management has omitted a management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

The accompanying supplementary information Schedules 1 through 6 and Notes to Supplementary Information for the year ended June 30, 2012 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Commission's basic financial statements. The accompanying supplementary information State Compliance Schedules 7 through 12 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The accompanying supplementary information State Compliance Schedules 7 through 12 have 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 accompanying supplementary information State Compliance Schedules 7 through 12 is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

We have also previously audited, in accordance with auditing standards generally accepted in the United States of America, the Commission's basic financial statements for the year ended June 30, 2011, and have issued our report thereon dated December 13, 2011, which contained an unqualified opinion on the financial statements of the business-type activities. The accompanying supplementary information for the year ended June 30, 2011 in the State Compliance Schedules 7 through 12 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2011 financial statements. The accompanying supplementary information for the year ended June 30, 2011 in the State Compliance Schedules 7 through 12 has been subjected to the auditing procedures applied in the audit of the 2011 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those statements or to those financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information for the year ended June 30, 2011 in the State

Compliance Schedules 7 through 12 is fairly stated in all material respects in relation to the basic financial statements as a whole from which it has been derived.

The accompanying supplementary information in the Analysis of Operations Section is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

E. C. Ortiz & Co., LLP

Chicago, Illinois
January 18, 2013

State of Illinois
Illinois Medical District Commission
(A Component Unit of the State of Illinois)
Statement of Net Assets

	June 30, 2012	(Comparative Totals Only) 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,448,825	$ 329,297
Short-term investments	254,572	250,139
Accounts receivable - net	13,858	1,369
Interest receivable	120,846	127,418
Notes receivable	1,136,805	1,106,405
Debt issuance costs	32,714	32,714
Total current assets	3,007,620	1,847,342
Noncurrent assets:		
Cash and cash equivalents, restricted	1,700,344	1,004,171
Notes receivable	29,551,668	30,688,473
Investments	2,284,771	3,225,778
Debt issuance costs - net	575,229	607,943
Capital assets - net	60,197,813	60,354,591
Other assets	21,524	28,367
Total noncurrent assets	94,331,349	95,909,323
TOTAL ASSETS	97,338,969	97,756,665
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses	1,651,187	340,619
Deferred revenue	4,224,860	680,881
Interest payable	786,104	799,421
Security deposits	361,336	347,293
Certificates of participation	770,000	740,000
Due to other State agency	680,000	520,000
Line of credit	3,000,000	3,000,000
Total current liabilities	11,473,487	6,428,214
Noncurrent liabilities:		
Compensated absences	49,544	55,849
Certificates of participation	24,415,000	25,185,000
Due to other State agency	29,145,300	34,003,278
Total noncurrent liabilities	53,609,844	59,244,127
TOTAL LIABILITIES	65,083,331	65,672,341
NET ASSETS		
Invested in capital assets, net of related debt	23,847,513	22,809,813
Restricted:		
Expendable for capital projects	16,996	23,290
Unrestricted	8,391,129	9,251,221
TOTAL NET ASSETS	$ 32,255,638	$ 32,084,324

See accompanying notes to basic financial statements.

State of Illinois
Illinois Medical District Commission
(A Component Unit of the State of Illinois)
Statement of Revenues, Expenses, and Changes in Net Assets

	For the Year Ended June 30,	
	2012	(Comparative Totals Only) 2011
OPERATING REVENUES		
Rental income	$ 3,863,152	$ 3,141,771
Other operating revenues	12,501	24,990
Total operating revenues	3,875,653	3,166,761
OPERATING EXPENSES		
Property management and development	2,806,651	2,510,004
Depreciation expense	1,156,778	1,150,499
Amortization expense	32,714	32,714
Total operating expenses	3,996,143	3,693,217
OPERATING LOSSES	(120,490)	(526,456)
NONOPERATING REVENUES (EXPENSES)		
Investment income	1,425,714	1,393,356
Interest expense	(3,321,303)	(3,370,570)
Net nonoperating expenses	(1,895,589)	(1,977,214)
LOSS BEFORE OTHER REVENUES, EXPENSES, GAINS AND LOSSES	(2,016,079)	(2,503,670)
Capital grants	2,187,393	169,860
INCREASE (DECREASE) IN NET ASSETS	171,314	(2,333,810)
NET ASSETS, BEGINNING OF YEAR	32,084,324	34,418,134
NET ASSETS, END OF YEAR	$ 32,255,638	$ 32,084,324

See accompanying notes to basic financial statements.

State of Illinois
Illinois Medical District Commission
(A Component Unit of the State of Illinois)
Statement of Cash Flows

	For the Year Ended June 30, 2012	(Comparative Totals Only) 2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments received from tenants	$ 3,979,812	$ 3,233,549
Payments to suppliers	(1,464,453)	(1,594,249)
Payments to employees	(1,112,197)	(941,418)
Net cash provided by operating activities	1,403,162	697,882
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Draws on loan from other State agency	1,910,627	2,037,347
Payments on loan from other State agency	(2,083,605)	(948,422)
Purchase of capital assets	-	(363,768)
Principal paid on capital debt and leases	(21,500)	(20,507)
Proceeds from capital grants	1,206,373	850,741
Interest paid on capital debt and leases	(3,334,620)	(3,365,357)
Net cash used in capital financing activities	(2,322,725)	(1,809,966)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	1,300,000	1,761,385
Collections on notes receivable	366,405	366,805
Interest income on investments	1,391,859	1,439,044
Purchase of investments	(323,000)	(2,136,071)
Net cash provided by investing activities	2,735,264	1,431,163
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,815,701	319,079
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,333,468	1,014,389
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 3,149,169	$ 1,333,468
Reconciliation of operating losses to net cash used in operating activities:		
Operating losses	$ (120,490)	$ (526,456)
Adjustments to reconcile operating losses to net cash provided by operating activities:		
Non-cash expenses included in operating income:		
Depreciation expense	1,156,778	1,150,499
Amortization expense	32,714	32,714
Changes in assets and liabilities:		
Accounts receivable - net	(12,489)	75,312
Other assets	6,843	7,798
Accounts payable and accrued expenses	332,068	(54,687)
Security deposits	14,043	15,220
Compensated absences	(6,305)	(2,518)
Net cash provided by operating activities	$ 1,403,162	$ 697,882
NON-CASH ITEMS		
Deferred capital grant revenue held by other State agency	$ 3,525,000	$ -
Capital grant revenue applied to loan from other State agency	$ 1,000,000	$ -
Non-cash payments received on notes receivable	$ 740,000	$ 710,000
Non-cash payments made on certificates of participation	$ 740,000	$ 710,000

See accompanying notes to basic financial statements.

NOTE 1 - ORGANIZATION

The Illinois Medical District Commission (Commission), a special district created by statute (70 ILCS 915/0.01 et. seq.), is considered part of the executive branch of the State of Illinois and operates under the authority and review of the Illinois General Assembly. Activities of the Commission are subject to the authority of the Office of the Governor, the State's chief executive officer, and other departments of the executive and legislative branches of government (such as the Comptroller's Office) as defined by the General Assembly. All non-appropriated funds received by the Commission are deposited in locally held funds under the control of Commission management.

The purpose of the Commission is to maintain the proper surroundings for a medical center and a related technology center in order to attract, stabilize, and retain therein hospitals, clinics, research facilities, or other facilities permitted under the Illinois Medical District Act (Act). Also, the Commission is to provide for the orderly creation and expansion of various county and local governmental facilities, other ancillary or related facilities, medical research and high technology parks, together with the necessary land, buildings, facilities, equipment, and personal property as permitted under the Act, and administering and exercising ultimate authority for the Chicago Technology Park.

NOTE 2 - SIGNIFICANT ACCOUNTING PRINCIPLES AND POLICIES

The accompanying basic financial statements of the Commission have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as prescribed in pronouncements of the Governmental Accounting Standards Board (GASB).

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 officials of the primary government are financially accountable. Financial accountability is defined as:

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

- Fiscal dependency on the primary government.

Based upon the required criteria, the Commission is a component unit of the State of Illinois financial reporting entity. The financial balances and activities included in these basic financial statements are, therefore, also included in the State's comprehensive annual financial report. The State of Illinois' Comprehensive Annual Financial Report (CAFR) may be obtained by writing to the State Comptroller's Office, Financial Reporting Department, 325 West Adams Street, Springfield, Illinois 62704.

The Commission's reporting entity includes the Commission's governing board and all related organizations for which the Commission exercises oversight responsibility. Currently there are no related organizations that meet the criteria noted above.

B. Basis of Accounting

For financial reporting purposes the Commission is considered a special-purpose government engaged only in business-type activities as defined by GASB Statement No. 34. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. Accordingly, the Commission's financial statements have been presented on 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. Revenue from grants, entitlements, and similar items are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been met.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, the Commission follows all applicable GASB pronouncements. In addition, the Commission applies FASB Accounting Standards Codification unless those pronouncements conflict with or contradict GASB pronouncements.

Appropriations made from the State of Illinois General Revenue or Capital Development Funds for the benefit of the Commission are recognized as revenues to the extent expended, limited to available appropriations and represent only the portion of these shared funds that can be directly attributed to the operations of the Commission. Financial statements for total fund operations of the shared State funds are presented in the State of Illinois CAFR. In presenting these financial statements, certain unique accounts are used for the presentation of shared funds. The following accounts are used in these financial statements to present the Commission's portion of shared funds:

Unexpended Appropriation

This "asset" account represents lapse period warrants issued between July and August annually in accordance with the Statewide Accounting Management System (SAMS) records plus any liabilities relating to obligations re-appropriated to the subsequent fiscal year.

State Appropriations

This account represents the final legally adopted appropriation according to SAMS records to the extent it was expended by the Commission. The amounts reported are net of any re-appropriations to subsequent years and the difference between current and prior year liabilities for re-appropriated accounts. Re-appropriations reflect the State's realignment of the budgetary needs to the subsequent year and avoid double counting a portion of the appropriation in more than one fiscal year.

During fiscal year 2012 the Commission did not receive an appropriation from the State of Illinois.

C. Classification of Revenues

The Commission has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues

Operating revenues include activities that directly relate to the operational purposes of the Commission and primarily include rent and service payments from tenants.

Nonoperating revenues

Nonoperating revenues include State appropriations and investment income.

D. Cash and Cash Equivalents

Cash and cash equivalents include debt securities with a maturity of 90 days or less at the time of acquisition, money market accounts, and cash in banks for locally held funds.

E. Investments

Investments include certificates of deposit and United States Treasury and Agency Obligations with maturities in excess of 90 days at the time of acquisition. Investments are carried at fair market value.

F. Accounts and Notes Receivable

Accounts receivable include amounts due from tenants for rent, parking, or other chargeable costs. The amounts are presented net of an allowance for doubtful accounts. Notes receivable includes amounts due from the University of Illinois and the Illinois State Police related to installment sales of real property.

G. Debt Issuance Costs

Debt issuance costs are amortized over the life of the loans using the straight-line method.

H. Capital Assets

Capital assets include property and equipment which are reported at cost. Donated assets are reported at estimated fair value when received. Capital assets are depreciated using the straight-line method.

Capitalization thresholds and estimated useful lives are as follows:

Capital Asset Category	Capitalization Threshold	Estimated Useful Life
Land	$ 100,000	N/A
Land improvements	25,000	N/A
Site improvements	25,000	3-50
Buildings	100,000	10-60
Building improvements	25,000	10-45
Intangible assets	100,000	3-25
Equipment	5,000	3-25

I. Compensated Absences

The liability for compensated absences consists of vested, accumulated paid time off leave balances for Commission employees. The liability has been calculated based on the employees’ current salary level and includes salary related costs (e.g., FICA, Medicare tax and pension contributions).

J. Net Assets

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

Invested in capital assets, net of related debt - This consists of capital assets, net of accumulated depreciation, less the outstanding balances of due to other State agency, capital lease obligations, lines of credit, and other liabilities that are attributable to the acquisition, construction, or improvement of those assets.

Restricted - This consists of net assets 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 Commission's policy to use restricted resources first, then unrestricted resources when they are needed.

Unrestricted - This consists of net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

K. Use of Estimates

The preparation of financial statements in conformity with GAAP 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.

NOTE 3 - DEPOSITS AND INVESTMENTS

The Public Funds Investment Act (30 ILCS 235/1 et seq.) and Public Funds Deposit Act (30 ILCS 225/1 et seq.) provide general guidance concerning the criteria to be met for the placement of public funds in a financial institution and the types of investment instruments permitted. These statutes authorize the Commission to purchase certain obligations of the U.S. Treasury, federal agencies and instrumentalities; certificates of deposit and time deposits covered by federal depository insurance; commercial paper of U.S. corporations with assets exceeding $500,000,000, if such paper is rated at the highest classification established by at least two standard rating services; money market mutual funds and investment in the Illinois Funds.

A reconciliation of deposits and investments presented below and the financial statement captions shown on the Statement of Net Assets for the year ended June 30, 2012 is as follows:

Carrying amount of deposits	$ 1,781,336
Carrying amount of investments	3,907,176
	$ 5,688,512

Cash and cash equivalents	$ 1,448,825
Cash and cash equivalents, noncurrent restricted	1,700,344
Short-term investments	254,572
Investments	2,284,771
	$ 5,688,512

The State Treasurer is the custodian of the State's cash and cash equivalents for funds maintained in the State Treasury. The Commission independently manages cash and cash equivalents maintained outside the State Treasury. As of June 30, 2012, no Commission funds were held in the State Treasury.

Deposits

The Commission utilizes different bank accounts for the various activities of the Commission. The book balance of such accounts was $1,781,336 at June 30, 2012, while the bank balance was $1,781,709 at June 30, 2012. The difference between the above amounts primarily represents checks and deposits which had not cleared the bank.

Custodial credit risk for deposits exists when, in the event of the failure of a depository financial institution, the Commission's deposits may not be recovered. As of June 30, 2012, the Commission's deposits were covered by the Federal Deposit Insurance Corporation (FDIC) and by collateral held by the financial institution in the Commission's name. The Commission therefore, has no custodial credit risk related to its deposits.

Investments

As of June 30, 2012 the Commission had the following investments:

Investment	Carrying Amount/ Fair Value	Maturity Less than 1 Year	1 to 5 Years	6 to 10 Years	Rating
U.S. agencies	$ 1,706,072	$ 254,572	$ 559,803	$ 891,697	AA+*
Time deposits	833,271	–	833,271	–	Not rated
Money market	1,367,833	1,367,833	–	–	Not rated
Total	$ 3,907,176	$ 1,622,405	$ 1,393,074	$ 891,697	

* *Standard & Poor's Ratings as of June 30, 2012.*

Investments totaling $3,589,697 held in money markets, time deposits, and U.S. Agency Obligations serve as collateral for the $3,000,000 line of credit with MB Financial Bank.

Interest Rate Risk

In order to limit interest rate risk, the Commission adheres to the State of Illinois Public Funds Investment Act (30 ILCS 235/1 et seq.).

NOTE 4 - ACCOUNTS, INTEREST AND NOTES RECEIVABLE

Accounts receivable include amounts due from tenants for rent, parking, or other chargeable costs. The following table presents the amounts due to the Commission by major type as well as the related allowance for doubtful accounts.

	Accounts Receivable	Allowance for doubtful accounts	Net
Rents and related fees	$ 223,150	$ (209,292)	$ 13,858

Rents and related fees above include several receivables that are over 360 days past due. The Commission has exhausted all means of collection against former tenants with balances past due.

Interest receivable includes interest due from the University of Illinois of $106,341 related to the installment sale of real estate as described in Note 6.

Notes receivable inclusive of imputed interest represents two installment sales contracts. The first contract is with the University of Illinois and relates to the installment sale agreement described in Note 6. The contract calls for annual principal payments of $215,700 each December 1 through the year 2032 for the land portion of the agreement and principal and interest payments equal to the principal and interest payments due on the certificates of participation as noted in Note 6.

The second contract was entered into with the Illinois State Police (ISP) in July 2004. In accordance with this contract, the Commission sold certain parcels of land and agreed to construct a parking lot thereon. In turn, the ISP will make annual payments (inclusive of imputed interest) over 20 years, totaling $2,164,668.

State of Illinois
Illinois Medical District Commission
(A Component Unit of the State of Illinois)
Notes to Basic Financial Statements
June 30, 2012

NOTE 5 - CAPITAL ASSETS

Capital assets activities for the year ended June 30, 2012 are as follows:

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
Cost:				
Land and land improvements	$ 41,855,483	$ 1,000,000	$ –	$ 42,855,483
Site improvements	3,044,776	–	–	3,044,776
Buildings and building improvements	23,037,007	–	–	23,037,007
Equipment	190,934	–	–	190,934
Total	68,128,200	1,000,000	–	69,128,200
Less accumulated depreciation:				
Site improvements	549,074	101,492	–	650,566
Buildings and building improvements	7,062,023	1,033,549	–	8,095,572
Equipment	162,512	21,737	–	184,249
Total	7,773,609	1,156,778	–	8,930,387
Capital assets, net	$ 60,354,591	$ (156,778)	$ –	$ 60,197,813

NOTE 6 - LINES OF CREDIT AND LONG-TERM DEBT

Interest Payable

Interest payable includes interest due to the Illinois Finance Authority (IFA) of $672,263, interest payable on certificates of participation of $106,341, and $7,500 interest payable on the line of credit.

Lines of Credit

On March 26, 2012, the Commission renewed the line of credit (Property Credit Line) with MB Financial Bank, N.A. The amount of this line of credit is $3,000,000 with a variable interest rate (3.0% at June 30, 2012) and a maturity date of January 5, 2013. As of June 30, 2012, this line of credit was collateralized by certain Commission deposits and investments held in MB Financial Bank. This line of credit is used to make property acquisitions in the District. See Note 11 on subsequent events.

Changes in short-term debt were as follows:

	Balance July 1, 2011	Net Advances	Balance June 30, 2012
Property credit line - MB Financial Bank	$ 3,000,000	–	$ 3,000,000

Due to Other State Agency

On January 31, 2006, the IFA issued $40 million of revenue bonds (Series 2006) on behalf of the Commission. Concurrently, the Commission and the IFA entered into a loan and security agreement, in which the IFA is to loan the $40 million to the Commission. The intent of this undertaking was to purchase certain real estate parcels within the Illinois Medical District and to construct facilities to be used for medical and other related activities. The security for the loan agreement includes all cash and investments in the trust accounts related to the revenue bonds held on behalf of the IFA (including a Debt Service Reserve Fund discussed on the next page), the revenues from the acquired and built properties, pledged revenues from additional property owned by the Commission and the moral obligation of the State of Illinois.

Changes in debt payable to the IFA were as follows:

	Balance July 1, 2011	Draws	Payments*	Balance June 30, 2012
Due to IFA	$ 34,523,278	$ 1,910,627	$ 6,608,605	$ 29,825,300

* *Including a $4,525,000 payment by DCEO to the revenue bond trustee.*

Certain cash and investment trust accounts held on behalf of the IFA, totaling $9,294,700, have been netted against the balance payable to the IFA of $39,120,000 in the Commission's basic financial statements. These funds are under the control of the IFA. A reconciliation of amounts payable to the IFA is shown in the debt service schedule on the next page.

Interest is paid on September 1 and March 1 of each year beginning in September 2006 with principal payments made on the September date only, beginning in 2010.

Future principal and interest requirements on the loan at June 30, 2012 are as follows (in thousands):

Year ending June 30,	Principal	Interest	Total
2013	$ 680	$ 2,000	$ 2,680
2014	840	1,964	2,804
2015	1,320	1,911	3,231
2016	1,395	1,844	3,239
2017	1,460	1,773	3,233
2018-2022	8,465	7,656	16,121
2023-2027	10,905	5,152	16,057
2028-2033	14,055	1,910	15,965
Total	39,120	24,210	63,330
Less amounts held in trust	9,295	–	9,295
Amount due to IFA	$ 29,825	$ 24,210	$ 54,035

Debt Service Reserve Funds (DSR)

Within the provisions of the revenue bonds issued by the IFA, it is specified that funds be set aside that will serve as a debt service reserve for the bonds. These funds are equivalent to one year's debt service (approximately $3.4 million in total) and are to be used whenever a deficiency exists in the payment of principal and/or interest on the Series 2006 Revenue Bonds. These funds are included in the trust assets above.

Debt Service Coverage Ratio

The loan and security agreement dated January 31, 2006 requires the Commission to achieve a debt service coverage ratio of at least 1.05 for each fiscal year commencing with the fiscal year beginning July 1, 2009. For the fiscal year ended June 30, 2012, the Commission had a debt service coverage ratio of 1.10. Included in the calculation of this ratio are voluntary contributions of $1,061,705.

On February 29, 2012, a direct transfer of $4,525,000 was made to trustee via a grant provided to the Commission by the State of Illinois, Department of Commerce and Economic Opportunity. See Note 10 for a description of this grant. During fiscal year 2012 the Commission was able to recognize $1,000,000 of this transfer as revenue. The remaining portion of this transfer has been deferred in accordance with the grant agreement as of June 30, 2012.

See the additional supplementary information as listed in the table of contents.

Certificates of Participation

On June 1, 2002, the Commission issued $30,625,000 of certificates of participation in connection with the construction of an office building for the use of the University of Illinois, near its facility on the west side of Chicago. These certificates will mature each June 1 from 2004 to 2032 at various amounts. The coupon rate on the certificates of participation varies from 2.35% to 5.25% with interest paid semi-annually on June 1 and December 1. The balance outstanding was $25,185,000 as of June 30, 2012.

Changes in long-term debt related to certificates of participation were as follows:

	Balance July 1, 2011	Draws	Payments	Balance June 30, 2012
Certificates of participation	$ 25,925,000	$ –	$ 740,000	$ 25,185,000

Sinking fund maturities and interest requirements on the certificates of participation payable at June 30, 2012 are as follows (in thousands):

Year ending June 30,	Principal	Interest	Total
2013	$ 770	$ 1,276	$ 2,046
2014	805	1,242	2,047
2015	840	1,206	2,046
2016	880	1,167	2,047
2017	920	1,126	2,046
2018-2022	5,340	4,897	10,237
2023-2027	6,825	3,405	10,230
2028-2032	8,805	1,434	10,239
Sub-Total	$ 25,185	$ 15,753	$ 40,938
Less current portion	770		
Total	$ 24,415		

In connection with the issuance, the Commission entered into an installment purchase contract with the University of Illinois for the aforementioned building and the respective land on which it stands. The installment payments related to the building (Note 4) are scheduled at the same time and the same amounts as the payments on the certificates of participation. In addition, as part of the issuance process, the Commission purchased credit insurance on the certificates of participation which guarantees the payments of principal and interest when they become due.

NOTE 7 - RISK MANAGEMENT

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; workers compensation, and natural disasters.

The Commission maintains commercial coverage for its automobiles, workers compensation and property liability.

NOTE 8 - CONTIGENCIES

The Chicago Technology Park Corporation (a component unit of the Commission), voluntarily dissolved on June 26, 2009, received approximately $2.9 million of federal funding under the BiTmaP grant program from the United States Department of Labor, subject to audit. Based on the outcome of this audit, the Corporation could be liable for a portion of the funding previously received. The results of the audit have not been finalized as of August 31, 2012.

The Commission is from time to time subject to various claims, legal actions, and inquiries related to compliance with environmental and other governmental laws and regulations. Although it is difficult to quantify the potential impact of these claims, management believes that the ultimate cost of these matters will not adversely affect the Commission's future financial condition or results of operations.

Accordingly, management does not believe that a reserve of the future effect, if any, of these matters in the basic financial statements of the Commission is necessary at June 30, 2012, as it is not possible to determine with any degree of probability the level of future expenditures for these matters.

NOTE 9 - PENSION PLAN

The Commission's full-time employees, who are not considered employees of the State, are eligible to participate in the Illinois Municipal Retirement Fund (IMRF), a pension trust fund covering employees of local governments and school districts in Illinois. Commission employees were eligible to enter the plan as of April 1, 2007. The IMRF was established under statutes adopted by the Illinois General Assembly.

Plan description

The Commission's defined benefit pension plan for Regular employees provides retirement and disability benefits, post retirement increases, and death benefits to plan members and beneficiaries. The Commission's plan is affiliated with the IMRF, an agent multiple-employer plan. Benefit provisions are established by statute and may only be changed by the General Assembly of the State of Illinois. IMRF issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained on-line at www.imrf.org.

Funding Policy

As set by statute, the Commission's Regular plan members are required to contribute 4.50 percent of their annual covered salary. The statute requires employers to contribute the amount necessary, in addition to member contributions, to finance the retirement coverage of its own employees. The employer annual required contribution rate for calendar year 2011 was 13%. The Commission also contributes for disability benefits, death benefits and supplemental retirement benefits, all of which are pooled at the IMRF level. Contribution rates for disability and death benefits are set by the IMRF Board of Trustees, while the supplemental retirement benefits rate is set by statute.

Annual Pension Cost

For calendar year ended December 31, 2011, the Commission's actual contributions for pension cost for the Regular plan were $105,983. The required contribution for calendar year 2011 was $98,076.

Three-Year Trend information for the Regular Plan

Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/11	$ 98,076	108%	$ –
12/31/10	104,081	85%	15,118
12/31/09	68,461	100%	–

The required contribution for 2011 was determined as part of the December 31, 2009, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at December 31, 2009, included (a) 7.5 percent investment rate of return (net of administrative and direct investment expenses), (b) projected salary increases of 4.00% a year, attributable to inflation, (c) additional projected salary increases ranging from 0.4% to 10% per year depending on age and service, attributable to seniority/merit, and (d) post retirement benefit increases of 3% annually. The actuarial value of the Commission's Regular plan assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period with a 20% corridor between the actuarial and market value of assets. The Commission's Regular plan's unfunded actuarial accrued liability at December 31, 2009 is being amortized as a level percentage of projected payroll on an open 10 year basis.

Funded Status and Funding Progress

As of December 31, 2011, the most recent actuarial valuation date, the Regular plan was 63.16 percent funded. The actuarial accrued liability for benefits was $860,172 and the actuarial value of assets was $543,323, resulting in an underfunded actuarial accrued liability (UAAL) of $316,849. The covered payroll for calendar year 2011 (annual payroll of active employees covered by the plan) was $754,427 and the ratio of the UAAL to the covered payroll was 42 percent.

The schedule of funding progress, presented below, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Schedule of funding progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c)
12/31/11	$ 543,323	$ 860,172	$ 316,849	63.16%	$ 754,427	42.00%
12/31/10	390,454	715,826	325,372	54.55%	726,824	44.77%
12/31/09	267,874	556,759	288,885	48.11%	615,108	46.96%

On a market value basis, the actuarial value of assets as of December 31, 2011 is $523,368. On a market basis, the funded ratio would be 60.84%.

NOTE 10 - GRANT FUNDING

On May 12, 2011, the Department of Commerce and Economic Opportunity (DCEO) awarded the Commission a grant in the amount of $2.8 million. Grant funds are to be used for the site preparation and building improvements for various properties owned by the Commission within the Medical District.

On February 28, 2012, DCEO awarded the Commission an additional $4.5 million of grant fund to reimburse the Commission for previously incurred land acquisition and all related costs.

On June 18, 2012, DCEO awarded the Commission an additional $5.8 million of grant funds. These additional grant funds are to be used for building improvements and renovations for two properties (2221 West 13th Street, Chicago, Illinois and 2225 West Harrison Street, Chicago, Illinois) within the Medical District that are owned by the Commission.

Total funding under the grant from the Department of Commerce and Economic Opportunity as of June 30, 2012 was $13.1 million. Grant funds received, but not earned, totaling $4,224,860 as of June 30, 2012, have been recorded as deferred revenue in the Statement of Net Assets.

NOTE 11 - SUBSEQUENT EVENTS

On July 18, 2012, Public Act 97-0825 was signed into law by the Governor of Illinois. This Act amended the Illinois Medical District Commission Act (70 ILCS 915). This amendment designates the Commission as a unit of local government and therefore the Commission is no longer considered a State agency. The Commission has requested a determination from the Comptroller's Office as to whether the Commission will continue to be reported as a component unit of the State of Illinois for financial reporting purposes after the date of the amendment.

If the Comptroller determines the Commission is no longer a component unit of the State of Illinois for financial reporting purposes, certain material changes related to the reporting of conduit debt will be made to the Commission's financial statements as of the date of the amendment. Through the date of this report, the Comptroller's Office has not provided such a determination.

On August 9, 2012, the Commission paid off the line of credit referred to in Note 6 with the deposits and investments held by MB Financial Bank as collateral on the line of credit.

In 2011, the Commission and a tenant asserted certain legal claims against each other relating to the leasehold interest, operation and certain other issues relating to real property owned by the Commission and located at 1701 West 13th Street Chicago, Illinois. In September 2012, the Commission approved a settlement and release with said tenant and the tenant's lender that will allow the Commission to regain control of the property and avoid a lengthy and costly legal process. This settlement calls for the Commission to pay $250,000 to the tenant's lender. This amount has been included as a liability in the Commission's financial statements as of June 30, 2012.

As reported in the Material Event Notice: Credit Ratings, as filed on the Electronic Municipal Market Access (EMMA) system on October 31, 2012, the rating by Standard & Poor's on the 2006 Series A and B Bonds has been downgraded on several occasions since their issuance. Current rating of the bonds is based on the moral obligation of the State of Illinois supporting the Bonds and is "BBB." For further details, please see the EMMA filing.

On November 20, 2012, the Commission filed certain financial information concerning fiscal years 2007 through 2011 with the Municipal Securities Rulemaking Board (MSRB) including information regarding a recently discovered error in the fiscal year 2010 debt service coverage ratio calculation. The Commission had previously reported a debt service coverage ratio of 1.46 for the fiscal year 2010. The calculation incorrectly included a transfer between funds as revenue and therefore was overstated by the Commission. The Commission has corrected this error in the debt service ratio calculation filed with MSRB, resulting in a debt service coverage ratio of 0.44 for fiscal year 2010. A copy of the filing can be found on the EMMA website at www.emma.msrb.org.

SUPPLEMENTARY INFORMATION
(UNAUDITED)

State of Illinois
Illinois Medical District Commission
(A Component Unit of the State of Illinois)
Combining Schedule of Net Assets (Unaudited)
June 30, 2012

SCHEDULE 1

ASSETS	**Non-Pledged Properties**	**Pledged Revenue Properties**	**Total**
Current assets:			
Cash and cash equivalents	$ 1,448,825	$ -	$ 1,448,825
Short-term investments	254,572	-	254,572
Accounts receivable - net	13,858	-	13,858
Interest receivable	120,846	-	120,846
Notes receivable	1,136,805	-	1,136,805
Debt issuance costs	-	32,714	32,714
Total current assets	2,974,906	32,714	3,007,620
Noncurrent assets:			
Cash and cash equivalents, restricted	484	1,699,860	1,700,344
Notes receivable	29,551,668	-	29,551,668
Investments	2,284,771	-	2,284,771
Debt issuance costs - net	-	575,229	575,229
Capital assets - net	32,162,284	28,035,529	60,197,813
Other assets	18,854	2,670	21,524
Total noncurrent assets	64,018,061	30,313,288	94,331,349
TOTAL ASSETS	66,992,967	30,346,002	97,338,969
LIABILITIES			
Current liabilities:			
Accounts payable and accrued expenses	538,975	1,112,212	1,651,187
Deferred revenue	-	4,224,860	4,224,860
Interest payable	113,841	672,263	786,104
Security deposits	342,186	19,150	361,336
Certificates of participation	770,000	-	770,000
Due to other State agency	-	680,000	680,000
Line of credit	3,000,000	-	3,000,000
Total current liabilities	4,765,002	6,708,485	11,473,487
Noncurrent liabilities:			
Compensated absences	49,544	-	49,544
Certificates of participation	24,415,000	-	24,415,000
Due to other State agency	-	29,145,300	29,145,300
Total noncurrent liabilities	24,464,544	29,145,300	53,609,844
TOTAL LIABILITIES	29,229,546	35,853,785	65,083,331
NET ASSETS (DEFICIT)			
Invested in capital assets, net of related debt	29,162,284	(5,314,771)	23,847,513
Restricted:			
Expendable for capital projects	16,996	-	16,996
Unrestricted	8,584,141	(193,012)	8,391,129
TOTAL NET ASSETS (DEFICIT)	$ 37,763,421	$ (5,507,783)	$ 32,255,638

See accompanying notes to supplementary information.

State of Illinois

SCHEDULE 2

Illinois Medical District Commission

(A Component Unit of the State of Illinois)

Combining Schedule of Revenues, Expenses, and Changes in Net Assets (Unaudited)

For the Year Ended June 30, 2012

	Non-Pledged Properties	Pledged Revenue Properties	Total
OPERATING REVENUES			
Rental income	$ 1,918,045	$ 1,945,107	$ 3,863,152
Other operating revenues	12,501	-	12,501
Total operating revenues	1,930,546	1,945,107	3,875,653
OPERATING EXPENSES			
Property management and development			
Advertising and promotion	4,387	-	4,387
Automotive expense	9,074	-	9,074
Dues and subscriptions	8,682	-	8,682
Education	599	-	599
Insurance	36,768	36,769	73,537
Lease termination expense	250,000	-	250,000
Legal and professional fees	520,665	86,427	607,092
Office expense	3,432	-	3,432
Other	28,382	383	28,765
Printing and copier expense	18,674	1,850	20,524
Rental expense	560	9,880	10,440
Repairs and maintenance	314,396	87,974	402,370
Salaries, wages and related expenses	1,077,209	34,550	1,111,759
Small tools and equipment	10,799	6,574	17,373
Supplies	18,901	9,149	28,050
Telecommunications	12,907	8,002	20,909
Travel expense	2,513	-	2,513
Utilities	156,981	50,164	207,145
Depreciation expense	500,703	656,075	1,156,778
Amortization expense	-	32,714	32,714
Total operating expenses	2,975,632	1,020,511	3,996,143
OPERATING INCOME (LOSS)	(1,045,086)	924,596	(120,490)
NONOPERATING REVENUES (EXPENSES)			
Investment income	1,422,688	3,026	1,425,714
Interest expense	(1,418,839)	(1,902,464)	(3,321,303)
Net nonoperating revenues (expenses)	3,849	(1,899,438)	(1,895,589)
LOSS BEFORE OTHER REVENUES, EXPENSES, GAINS AND LOSSES	(1,041,237)	(974,842)	(2,016,079)
Capital grants	-	2,187,393	2,187,393
Transfers	(393,427)	393,427	-
INCREASE (DECREASE) IN NET ASSETS	(1,434,664)	1,605,978	171,314
NET ASSETS (DEFICIT), BEGINNING OF YEAR	39,198,085	(7,113,761)	32,084,324
NET ASSETS (DEFICIT), END OF YEAR	$ 37,763,421	$ (5,507,783)	$ 32,255,638

See accompanying notes to supplementary information.

SCHEDULE 3

State of Illinois
Illinois Medical District Commission
(A Component Unit of the State of Illinois)
Combining Schedule of Cash Flows (Unaudited)
For the Year Ended June 30, 2012

	Non-Pledged Properties	Pledged Revenue Properties	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments received from tenants	$ 1,938,324	$ 2,041,488	$ 3,979,812
Payments to suppliers	(1,071,026)	(393,427)	(1,464,453)
Payments to employees	(1,112,197)	-	(1,112,197)
Net cash provided by (used in) operating activities	(244,899)	1,648,061	1,403,162
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers	(331,722)	331,722	-
Net cash provided by (used in) noncapital financing activities	(331,722)	331,722	-
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES			
Draws on loan from other State agency	-	1,910,627	1,910,627
Payments on loan from other State agency	-	(2,083,605)	(2,083,605)
Principal paid on capital debt and leases	(21,500)	-	(21,500)
Proceeds from capital grants	-	1,206,373	1,206,373
Interest paid on capital debt and leases	(1,337,395)	(1,997,225)	(3,334,620)
Net cash used in capital financing activities	(1,358,895)	(963,830)	(2,322,725)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales and maturities of investments	1,300,000	-	1,300,000
Collections on notes receivable	366,405	-	366,405
Interest income on investments	1,388,833	3,026	1,391,859
Purchase of investments	(323,000)	-	(323,000)
Net cash provided by investing activities	2,732,238	3,026	2,735,264
NET INCREASE IN CASH AND CASH EQUIVALENTS	796,722	1,018,979	1,815,701
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	652,587	680,881	1,333,468
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1,449,309	$ 1,699,860	$ 3,149,169
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	$ (1,045,086)	$ 924,596	$ (120,490)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Non-cash expenses included in operating income:			
Depreciation expense	500,703	656,075	1,156,778
Amortization expense	-	32,714	32,714
Changes in assets and liabilities:			
Accounts receivable	(12,489)	-	(12,489)
Other assets	3,678	3,165	6,843
Accounts payable and accrued expenses	299,957	32,111	332,068
Security deposits	14,643	(600)	14,043
Compensated absences	(6,305)	-	(6,305)
Net cash provided by (used in) operating activities	$ (244,899)	$ 1,648,061	$ 1,403,162
NON-CASH ITEMS			
Deferred capital grant revenue held by other State agency	$ -	$ 3,525,000	$ 3,525,000
Capital grant revenue applied to loan from other State agency	$ -	$ 1,000,000	$ 1,000,000
Non-cash payments received on notes receivable	$ 740,000	$ -	$ 740,000
Non-cash payments made on certificates of participation	$ 740,000	$ -	$ 740,000

See accompanying notes to supplementary informaiton.

State of Illinois
Illinois Medical District Commission
(A Component Unit of the State of Illinois)
Debt Service Coverage Ratio Calculation (Unaudited)
For the Year Ended June 30, 2012

SCHEDULE 4

REVENUES AVAILABLE FOR DEBT SERVICE		
Net operating income of pledged revenue properties	$	924,596
Add back items excluded from calculation per the Indenture		
Depreciation expense		656,075
Amortization expense		32,714
Investment income on funds held by Trustee*		157,539
Trustee fees*		(39,127)
Voluntary contributions (Note 4)		1,061,705
Total revenues available for debt service		2,793,502
DEBT SERVICE REQUIREMENTS		
Series 2006A		
Principal payment due September 1, 2011		220,000
Interest payment due September 1, 2011		165,464
Interest payment due March 1, 2012		160,927
Series 2006B		
Principal payment due September 1, 2011		300,000
Interest payment due September 1, 2011		855,178
Interest payment due March 1, 2012		847,468
Total debt service	$	2,549,037
Debt service coverage ratio		1.10

** Investment income on funds held in trust and Trustee fees are netted against interest expense on the Commission's Statement of Revenues, Expenses, and Changes in Net Assets.*

See accompanying notes to supplementary information.

SCHEDULE 5

State of Illinois
Illinois Medical District Commission
(A Component Unit of the State of Illinois)
Schedule of Capital Assets of the Pledged Revenue Properties (Unaudited)
June 30, 2012

COST		
Land and land improvements	$	15,529,528
Site improvements		1,655,617
Buildings and building improvements		13,911,628
Total cost		31,096,773
ACCUMULATED DEPRECIATION		
Site improvements		235,299
Buildings and building improvements		2,825,945
Total accumulated depreciation		3,061,244
Capital assets, net	$	28,035,529

CAPITAL ASSETS, NET BY PLEDGED REVENUE PROJECT		
1350 South Leavitt Street Project	$	3,341,276
Guest House Project/1910 West Harrison Street		1,791,104
ASCP Buildings Project		11,304,879
District Development Acquisitions		3,034,031
District Development Commercial/Retail Project		6,166,477
District Development Vertiport Project		2,397,762
	$	28,035,529

See accompanying notes to supplementary information.

State of Illinois **SCHEDULE 6**
Illinois Medical District Commission
(A Component Unit of the State of Illinois)
Reconciliation of Due to Other State Agency (Unaudited)
June 30, 2012

REMAINING PRINCIPAL BALANCE		
Series 2006A bonds	$	7,070,000
Series 2006B bonds		32,050,000
Total remaining principal balance		39,120,000
LESS CASH AND INVESTMENTS HELD IN TRUST		
Revenue fund		90,076
Bond fund - 2006A		393,016
Bond fund - 2006B		1,305,806
Debt service reserve fund - 2006A		564,955
Debt service reserve fund - 2006B		2,785,777
Operating fund		1
Operation reserve fund		500,000
Replacement reserve fund		130,000
Special Account		3,525,069
Total cash and investments held by the IFA		9,294,700
Balance at end of period	$	29,825,300
SUMMARY OF TRUST ACCOUNT ACTIVITY		
Balance at beginning of period	$	34,523,278
Principal payments made from trust accounts		520,000
Reduction of outstanding principal balance		(520,000)
Deposit made by GOMB		(4,525,000)
Interest payments made from trust accounts		2,029,038
Rents transfered to the Trustee by the Commission		(2,083,604)
Administrative and legal fees paid to the Trustee		39,127
(Earnings) loss on investments held by the Trustee		(157,539)
Balance at end of period	$	29,825,300
BALANCE PER COMBINING SCHEDULE OF NET ASSETS		
Current portion	$	680,000
Long-term portion		29,145,300
Total due to other State agency	$	29,825,300

See accompanying notes to supplementary information.

State of Illinois
Illinois Medical District Commission
(A Component Unit of the State of Illinois)
Notes to Supplementary Information (Unaudited)
June 30, 2012

NOTE 1 - BASIS OF ACCOUNTING

The accompanying supplementary information as listed in the table of contents has been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as prescribed in pronouncements of the Governmental Accounting Standards Board (GASB).

NOTE 2 - DEBT SERVICE COVERAGE RATIO CALCULATION

The debt service coverage ratio was prepared based on the definitions in the Indenture of Trust dated January 1, 2006. The debt service coverage ratio was computed by dividing revenues available for debt service over debt service on the bonds payable during the fiscal year. Revenues available for debt service means revenues less operating expenses for the period. Debt service means the regularly scheduled payments of principal of (whether at maturity or by mandatory sinking fund redemption), premium, if any, and interest due and payables on the bonds as of such period.

NOTE 3 - DEFERRED GRANT REVENUE

On February 28, 2012, the Department of Commerce and Economic Opportunity awarded the Commission $4.5 million of grant funds to reimburse the Commission for previously incurred land acquisition and related costs. These funds are held in trust and are to be released to the Commission and deposited in the Revenue Fund in accordance with the terms of the grant agreement. The grant agreement allows for the release of grant funds as needed to meet the Commission's requirements under the Indenture of Trust to fund the Bond Funds on a monthly basis and also allows for the release of grant funds in order to meet a debt service coverage ratio of 1.10 in future years.

During fiscal year 2012, $1 million of these grant funds was released to the Commission and therefore recognized as grant revenue. These funds were transferred directly to the Trustee by the State of Illinois and, therefore, are considered a noncash payment on the loan due to other State agency for the purposes of the Combining Schedule of Cash Flows. This amount has been included as a voluntary contribution in the calculation of the debt service coverage ratio. The remaining $3.5 million is reported as deferred revenue in the Commission's Combining Schedule of Net Assets.

State of Illinois
Illinois Medical District Commission
(A Component Unit of the State of Illinois)
Notes to Supplementary Information (Unaudited)
June 30, 2012

NOTE 4 - VOLUNTARY CONTRIBUTION AND OTHER TRANSFERS

Voluntary contributions include $1 million (see Note 3) of capital grant revenue and additional funds of $61,705 (that were derived from non-pledged revenues) were deposited by the Commission with the Trustee.

Transfers as reported on the Combining Schedule of Revenue, Expenses, and Changes in Net Assets and the Combining Schedule of Cash Flows includes operating expenses paid by the Commission derived from non-pledged revenues of $331,722 and the additional voluntary contribution of $61,705 noted above.

State of Illinois
Illinois Medical District Commission
(A Component Unit of the State of Illinois)
Supplementary Information for State Compliance Purposes
For the Year Ended June 30, 2012

Summary

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

- Fiscal Schedules and Analysis
  - Schedule of Changes in State Property
  - Analysis of Significant Variations in Revenues and Expenses
  - Comparative Schedule of Expenses - Locally Held Funds (Non-Appropriated)
  - Comparative Schedule of Revenues - Locally Held Funds (Non-Appropriated)
  - Analysis of Significant Account Balances
  - Analysis of Accounts Receivable

- Analysis of Operations (Unaudited)
  - Commission Functions and Planning Program (Unaudited)
  - Average Number of Employees (Unaudited)
  - Emergency Purchase (Unaudited)
  - Service Efforts and Accomplishments (Unaudited)

The accountants' report that covers the Supplementary Information for State Compliance Purposes presented in the Compliance Report Section states that it has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in the auditors' opinion, it is fairly stated in all material respects in relation to the basic financial statements as a whole from which it has been derived. The accountants' report also states the Analysis of Operations Section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, they do not express an opinion or provide any assurance on it.

SCHEDULE 7

State of Illinois
Illinois Medical District Commission
(A Component Unit of the State of Illinois)
Schedule of Changes in State Property
For the Years Ended June 30, 2012 and 2011

Cost:	July 1, 2011	Additions	Deletions	June 30, 2012
Land and land improvements	$ 42,145,429	$ 1,027,924	$ -	$ 43,173,353
Site improvements	3,125,986	15,987	-	3,141,973
Buildings and building improvements	23,169,037	21,569	-	23,190,606
Equipment	340,290	9,713	-	350,003
Total Cost	$ 68,780,742	$ 1,075,193	$ -	$ 69,855,935

Cost:	July 1, 2010	Additions	Deletions	June 30, 2011
Land and land improvements	$ 42,033,257	$ 112,172	$ -	$ 42,145,429
Site improvements	3,121,846	4,140	-	3,125,986
Buildings and building improvements	22,831,953	337,084	-	23,169,037
Equipment	334,141	6,986	(837)	340,290
Total Cost	$ 68,321,197	$ 460,382	$ (837)	$ 68,780,742

NOTES:

(1) The information reflected in this schedule was taken from the Commission's records and reconciled to property reports (C-15 Agency Report of State Property) submitted to the Office of the Comptroller.

(2) This summary schedule was prepared using State property records required by the Illinois Administrative Code. The capitalization policy in the Code is different than the capitalization policy established by the Office of the Comptroller for financial reporting in accordance with generally accepted accounting principles.

SCHEDULE 8

State of Illinois
Illinois Medical District Commission
(A Component Unit of the State of Illinois)
Analysis of Significant Variations in Revenues and Expenses
For the Year Ended June 30, 2012

Following are explanations for significant variances in revenues and expense accounts which exceeded $50,000 and 15%:

	FISCAL YEAR ENDED JUNE 30,		INCREASE (DECREASE)	
	2012	2011	AMOUNT	%
Operating revenues:				
Rental income	$ 3,863,152	$ 3,141,771	$ 721,381	23%
Other revenues:				
Capital grants	2,187,393	169,860	2,017,533	1,188%

<u>Operating revenues: Rental income</u>

In fiscal year 2012, rental income from new tenants exceeded $461,000. The remaining increase in fiscal year 2012 was due to annual increases in monthly rents per lease agreements which were in existence prior to July 1, 2011.

<u>Other revenues: Capital grants</u>

The Commission received a grant for $2.8 million from the Illinois Department of Commerce and Economic Opportunity in fiscal year 2011. Grant funds earned in fiscal year increased significantly as one project included in the grant for $1 million was completed in fiscal year 2012. An additional $1 million of grant funds were used to reimburse prior incurred costs in accordance with the grant agreement.

State of Illinois **SCHEDULE 9**
Illinois Medical District Commission
(A Component Unit of the State of Illinois)
Comparative Schedule of Expenses - Locally Held Funds (Non-Appropriated)
For the Years Ended June 30, 2012 and 2011

The following schedule of locally held fund expenditures have been derived from the audited financial statements of each year presented. The expenditures are presented using the accrual basis of accounting and present the locally held fund expenditures of the Commission.

	2012	2011
Illinois Medical District Restricted Fund (1377)		
Property management and development	$ 2,806,651	$ 2,510,004
Interest expense	3,321,303	3,370,570
Total - Fund 1377	$ 6,127,954	$ 5,880,574

State of Illinois **SCHEDULE 10**

Illinois Medical District Commission

(A Component Unit of the State of Illinois)

Comparative Schedule of Revenues - Locally Held Funds (Non-Appropriated)

For the Years Ended June 30, 2012 and 2011

The following schedule of locally held fund revenues have been derived from the audited financial statements of each year presented. The revenues are presented using the accrual basis of accounting and present the locally held fund revenues of the Commission.

	2012	2011
Illinois Medical District Restricted Fund (1377)		
Rental income	$ 3,863,152	$ 3,141,771
Investment income	1,425,714	1,393,356
Other operating revenues	12,501	24,990
Total - Fund 1377	$ 5,301,367	$ 4,560,117

SCHEDULE 11

State of Illinois
Illinois Medical District Commission
(A Component Unit of the State of Illinois)
Analysis of Significant Account Balances
For the Year Ended June 30, 2012

Following are explanations for significant variances in account balances which exceeded $50,000 and 15%:

	JUNE 30,		INCREASE (DECREASE)	
	2012	2011	AMOUNT	%
Current assets:				
Cash and cash equivalents	$1,448,825	$ 329,297	$ 1,119,528	340%
Noncurrent assets:				
Cash and cash equivalents, restricted	1,700,344	1,004,171	696,173	69%
Investments	2,284,771	3,225,473	(940,702)	(29%)
Current liabilities:				
Accounts payable and accrued expenses	1,651,187	340,619	1,310,568	385%
Deferred revenue	4,224,760	680,881	3,543,879	520%
Due to other State agency	680,000	520,000	160,000	31%

Cash and cash equivalents, current and noncurrent

In May 2011, the Commission received a grant from the Illinois Department of Commerce and Economic Opportunity (DCEO). About $1 million of this grant was set aside for expenses obligated in fiscal year 2012 but paid in fiscal year 2013. In addition, the Commission converted some of its investments to cash in fiscal year 2012.

Investments

In fiscal year 2012, the Commission changed its investment portfolio wherein some of the investments were transferred in money market placements.

Accounts payable and accrued expenses

Increase in fiscal year 2012 is due to utility relocation expenses of $1 million and accrual of settlement and legal fees of $250,000 involving certain Commission's property.

State of Illinois
Illinois Medical District Commission
(A Component Unit of the State of Illinois)
Analysis of Significant Account Balances (Continued)
For the Year Ended June 30, 2012

Deferred revenue

Increase in fiscal year 2012 is due to unexpended portion of the additional $4.5 million of grant funds received by the Commission from DCEO, which was deposited in the revenue bonds trust account of Illinois Finance Authority.

Due to other State agency

Increase in fiscal year 2012 current portion is due to the increase in principal amortization schedule for amounts due in fiscal year 2013.

State of Illinois **SCHEDULE 12**

Illinois Medical District Commission

(A Component Unit of the State of Illinois)

Analysis of Accounts Receivable

For the Years Ended June 30, 2012 and 2011

Accounts receivable balances were maintained for locally held funds during the audit period. Collections on accounts receivable are handled by the Executive Director or Chief Legal Counsel. If the Commission personnel cannot collect on a receivable, the Commission turns those receivables over to a collection agency. An aging of accounts receivable as of June 30, (excluding interest receivable) is presented below:

	2012		**2011**	
Days Outstanding	Amount	Percent	Amount	Percent
One to thirty	$ -	0%	$ -	0%
Thirty-one to three hundred sixty	13,858	6%	1,039	0%
Over three hundred sixty	209,292	94%	327,646	100%
	223,150		328,685	
Estimated uncollectible amount	209,292		327,316	
Accounts receivable (net)	$ 13,858		$ 1,369	

During fiscal year 2012 the Commission requested and received authorization from the Illinois State Comptroller to write-off approximately $119,000 of accounts receivable that were over 360 days past due and were determined to be uncollectible.

State of Illinois
Illinois Medical District Commission
(A Component Unit of the State of Illinois)
Analysis of Operations (Unaudited)
For the Year Ended June 30, 2012

Commission Functions and Planning Program (Unaudited)

Description of Planning System:

Functions

The Illinois Medical District Commission (Commission) was created in 1941 by the Medical District Act (Act), 70 ILCS 915/0.01 et. seq. The Commission's primary purpose is that of assembling the nation's premier concentration of health care facilities and providers; fostering the economic expansion of Illinois by supporting the growth of its life science community; providing for the ongoing facilities, resources and expansions of social service organizations that assure the well-being of Illinoisans with disabilities; creating the State's largest emergency response and disaster preparedness community; and fostering cooperation and collaboration between federal, State, county and local governmental bodies in achieving these common objectives.

Currently the Commission's operations are funded by locally held funds and grant funds which are maintained in local banking institutions. Activities of the Commission are subject to the authority of the Office of the Governor, the State's chief executive officer, and other departments of the executive and legislative branches of government (such as the Comptroller's Office) as defined by the General Assembly. When awarded, funds appropriated to the Commission are under the custody and control of the State Treasurer. All other cash received is deposited in locally held funds under the control of Commission management.

The Commission's main office is located at 2100 W Harrison Street, Chicago, Illinois 60612 located within 560 acres of medical research facilities, labs, biotech business incubator, raw development area, universities, and over 40 healthcare related facilities. The District is one of the nation's largest urban medical districts, holds one of the nation's largest college of medicine, and the largest biotechnology/medical complex in the State of Illinois.

The Commission is directed by seven members (Commissioners) of which four are appointed by the Governor, two by the Mayor of Chicago, and one by the President of the Cook County Board. Commission officials are as follows:

Principal Officers

Mr. Warren Ribley, Executive Director
Mr. John Sinsheimer, Interim Chief Fiscal Officer
Mr. Mark Jamil, Chief Legal Counsel
Mr. Peter Negro, Operations Manager

Commission Functions and Planning Program (Unaudited) (Continued)

Description of Planning System: (Continued)

Functions (Continued)

Board of Commissioners

Jennifer L. Woodard, President
Meredith O'Connor, Vice President
Daniel A. Trevino, Secretary
Carmita Vaughan, Treasurer
Blake P. Sercye
James Clewlow
Issac S. Goldman

The Commission holds regular meetings as needed, including a meeting in November each year for the election of officers.

By Statute, the Commission has mandated functions which include the following:

- Report biennially to the General Assembly;
- Acquire or lease property within the District by right of eminent domain;
- Regulate the use of the property within the District, for the use of medical and other related institutions, for housing related to medical purposes, for certified historical district, and for a high technology medical research park;
- Construct or permit to be constructed buildings related to these special uses;
- Borrow funds for activities;
- Sell, convey, transfer, or lease real estate to qualified users;
- Improve and manage the District to provide the most favorable conditions for care and treatment of the sick and injured, and for the study of disease; and
- Cooperate with related groups, like the Chicago City Planning Commission.

While this list is not comprehensive, the Commission has a significant responsibility to the District and the institutions within the District. The Commission has the responsibility of coordinating the efforts of all organizations within the District, which include the Commission, Rush University Medical Center, John H. Stroger, Jr. Hospital of Cook County, University of Illinois Medical Center and the Jesse Brown V.A. Medical Center.

Commission Functions and Planning Program (Unaudited) (Continued)

Description of Planning System: (Continued)

Planning Program

The Commission's enabling statute mandates many functions and activities, and the Commissioners translate these statutory mandates into programs, actions, and management of the Commission and District. The annual budget requirements include discussions of short-term objectives and the master plan (as revised) discusses the Commission's long-term goals and objectives.

The Commission has a development plan and program on file concurred by the major District institutions and by the Chicago Department of Planning in 1984. This flexible and evolving plan outlines goals and policies to clarify the purpose of the Commission and provides overall guidance for its successful development. These goals and policies include:

- To expand the economic base of the City and provide greater job opportunities;
- To utilize scientific and technological excellence to attract new industry;
- To provide incubator facilities for nurturing new enterprises;
- To provide facilities to support and complement new development;
- To optimize accessibility to the area for employees;
- To make the Corporation visually distinguished and attractive;
- To provide a high level security;
- To provide amenities for employees and visitors;
- To encourage the development of supporting facilities; and
- To encourage the conservation and renovation of adjacent residential areas.

Currently, the Illinois Medical District's (District) acquisition program is focused south of Roosevelt Road - the District Development Area - where the District is the majority property owner. This redevelopment effort is one of the largest comprehensive redevelopment projects within the City of Chicago. For the past several years, the District has been acquiring and demolishing vacant, abandoned, older or dilapidated properties in order to assemble developable parcels for medical, governmental and institutional development. In close proximity or adjacent to existing new development, this program continues with projects that are at or near completion. As part of this comprehensive redevelopment process, the Commission has coordinated and collaborated with other local government and regulatory agencies.

State of Illinois
Illinois Medical District Commission
(A Component Unit of the State of Illinois)
Analysis of Operations (Unaudited) (Continued)
For the Year Ended June 30, 2012

Commission Functions and Planning Program (Unaudited) (Continued)

Description of Planning System: (Continued)

Planning Program (Continued)

The measures of performance that Commission management uses a status reports on land acquisitions, buildings or renovations of facilities statistics and statistics on the percent of occupancy for Commission owned buildings. These measures are adequate for their needs, since their main function is to obtain land and to convey it to appropriate users, and facilitate meeting bond debt service obligations.

For financial reporting purposes, the Commission is considered a special-purpose government engaged only in business-type activities as defined by GASB Statement No. 34. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services.

State of Illinois
Illinois Medical District Commission
(A Component Unit of the State of Illinois)
Analysis of Operations (Unaudited) (Continued)
For the Year Ended June 30, 2012

Average Number of Employees (Unaudited)

The average number of employees at the Commission during the fiscal years 2012, 2011 and 2010 is as follows:

	2012	2011	2010
Administration	5	5	5
Operations/Maintenance	4	3	3
Clerical	1	1	1
Contractual Positions	1	2	2
Total	11	11	11

The above schedule includes all employees of the Commission, and certain professional, maintenance and clerical positions paid on a contractual basis.

Emergency Purchase (Unaudited)

During the fiscal year ended June 30, 2012, the Commission had the following emergeny purchase:

Vendor	Description	Amount
Borschnak, Pelletier and Co.	Professional services for additional time needed to transition the performance of the critical financial and accounting services under the subject contract to a permanent position within the IMDC.	$30,000

Service Efforts and Accomplishments (Unaudited)

A brief description of the functions and activities of the Commission are presented in the Commission Functions and Planning Program. This section of the report presents to the reader some basic data (financial and non-financial) related to the accomplishment of those functions.

The Commission governs development within the District, a 560-acre area bordered by Ashland Avenue, the Eisenhower Expressway, Oakley Boulevard, and 16th Street on the Near West Side of Chicago. The District is one of the nation's largest urban Medical Districts and includes Rush University Medical Center, John H. Stroger Jr. Hospital of Cook County, University of Illinois Medical Center, Jesse Brown VA Medical Center, and 40 other healthcare institutions. The Commission nurtures or coordinates growth among all institutions within the Medical District. The District is home to the Illinois Forensic Center (Crime Lab), and the American Red Cross of Greater Chicago Headquarters. The District Security Group and District Member Council organize activities and projects to improve the safe environment and coordinate signage and beautification. The District or its institutions are actively involved in many bio-terrorism, public safety and disaster response and preparedness projects and activities. The regional FBI headquarters (opened in Spring 2006) is integral to such efforts.

The Chicago Technology Park (Park) is a 56-acre development located within the boundaries of the District where facilities are available for technology commercialization and research. Its primary objective is to grow and attract startup technology based firms in Illinois with an emphasis on biotechnology. There are currently over 30 biotech or technology based firms in the Park that has their origins from District's major facilities, including a 56,000 square-foot state-run incubator, the 20,000 square-foot Enterprise Center I, the 15,000 square-foot Enterprise Center II and the 70,000 square-foot Tech 2000 building as well as other research, treatment, and emergency communication facilities.

It is the Commission's goal to position Illinois as a leader in biotechnology and medical research commercialization. District Development focuses on continued economic growth and development of the District through land acquisition and assembly of lots into larger parcels using voluntary agreements, delinquent tax sales, condemnation and intergovernmental transfers. Suitable land sites are leased for expansion to member institutions and new qualified users. As the land acquisition program is ongoing, the Commission meets regularly with developers and the City of Chicago to plan and coordinate redevelopment activities.