

**STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY**

**FINANCIAL AUDIT
For the Year Ended June 30, 2010**

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

**STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
(A Component Unit of the State of Illinois)
FINANCIAL AUDIT
For the Year Ended June 30, 2010**

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

AGENCY OFFICIALS

Executive Director (12/08/2009 - present)	Mr. Christopher Meister
Chairman - Board of Directors	Mr. William Brandt, Jr.
Chief Financial Officer (07/01/2009 - 08/20/2010)	Ms. Yvonne Towers
Assistant Chief Financial Officer	Ms. Ximena Granda
Chief Human Resources Officer (11/02/2009 - present)	Mr. Arthur Friedson
General Counsel (07/13/2010 - present)	Mr. Brendan Cournane
General Counsel and Deputy Director (07/01/2009 - 12/08/2009)	Mr. Christopher Meister
Chief Administrative Officer / Treasurer (07/01/2009 - 10/14/2009)	Mr. Stuart Boldry

Board Members

William Barclay	Terrence O'Brien
Ronald DeNard	Juan Rivera (07/01/2009 - 10/12/2010)
Michael Goetz	John Durburg (12/07/2009 - present)
Dr. Roger Herrin	Bradley Zeller
Edward Leonard Sr.	Joseph McInerney (12/07/2009 - 03/23/2011)
James Fuentes	Roger Poole (12/07/2009 - present)
Roderick Bashir (12/07/2009 - 07/16/2010)	April Verrett (07/01/2009 - 11/25/2009)
Gila Bronner (10/08/2010 - present)	Heather Parish (08/25/2010 - present)
Norman Gold (09/14/2010 - present)	

Agency offices are located at:

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

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

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

Peoria Office
100 South West Water Street
Peoria, Illinois 61602

**STATE OF ILLINOIS
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(A Component Unit of the State of Illinois)
FINANCIAL STATEMENT REPORT**

SUMMARY

The audit of the accompanying financial statements of the State of Illinois, Illinois Finance Authority (Authority) was performed by E.C. Ortiz & Co., LLP.

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

SUMMARY OF FINDINGS

The auditors identified matters involving the Authority's internal control over financial reporting that they considered to be a material weakness. The material weakness is described in the accompanying Schedule listed in the table of contents as findings 10-1, noncompliance with the investment requirements of the Bond Indenture.

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with Authority's personnel at an exit conference on March 22, 2011. Attending were:

Illinois Finance Authority

Gila Bronner, Audit Committee Chairman
Christopher Meister, Executive Director
Brendan Cournane, General Counsel
Arthur Friedson, Chief Human Resource Officer
Ximena Granda, Assistant Chief Financial Officer
Joy Kuhn, Assistant Treasurer
Scott Bailey, Bronner Group LLC

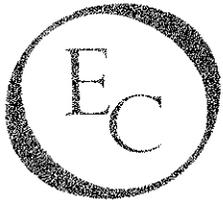
Office of the Auditor General

Jon Fox, Audit Manager

E.C. Ortiz & Co., LLP

Edilberto Ortiz, Partner
Marites Sy, Partner
Epifanio Sadural, Manager
Analie Hoyle, Manager

The responses to the recommendations were received from Ximena Granda on March 30, 2011.



Independent Auditors' Report

Honorable William G. Holland
Auditor General
State of Illinois

and

Ms. Gila Bronner
Honorable Chairman of the Audit Committee
of the Board of Directors
Illinois Finance Authority

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the business-type activities, each major fund and the aggregate remaining fund information of the State of Illinois, Illinois Finance Authority, a component unit of the State of Illinois, as of and for the year ended June 30, 2010, which collectively comprise the State of Illinois, Illinois Finance Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Illinois, Illinois Finance Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund and the aggregate remaining fund information of the State of Illinois, Illinois Finance Authority, as of June 30, 2010, and the respective changes in financial position and 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 a report dated May 5, 2011 on our consideration of the State of Illinois, Illinois Finance Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 5 through 10 are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Illinois, Illinois Finance Authority's basic financial statements. The accompanying supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

E.C. Ortiz & Co, LLP
Chicago, Illinois
May 5, 2011

**STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
(A Component Unit of the State of Illinois)
MANAGEMENT DISCUSSION ANALYSIS
JUNE 30, 2010**

Basic Financial Statements

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

To assure these objectives are met for different parties, GASB 34 generally requires that basic Financial Statements for governmental entities include both government-wide and fund financial statements. However, for governmental entities which are engaged only in business-type activities accounted for in enterprise funds, GASB 34 requires presentation of fund financial statements only. Governmental reporting standards require an enterprise fund be used to account for an activity if the pricing policies of the activity establish fees and charges designed to recover its costs. Accordingly, as all of the Authority's activities are business-type activities accounted for as enterprise funds, the Authority's financial statements present only the fund financial statements and not government-wide financial statements.

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

The Statement of Net Assets presents the financial position of the Authority as of June 30, 2010 and includes all assets and liabilities of the Authority.

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

The Statement of Cash Flows provides additional information about the Authority's financial results by reporting the major sources and uses of the Authority's cash.

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

Condensed Financial Information

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

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ILLINOIS FINANCE AUTHORITY
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MANAGEMENT DISCUSSION ANALYSIS
JUNE 30, 2010**

STATEMENT OF NET ASSETS (IN MILLIONS)

	Business-type Activities	
	<u>2010</u>	<u>2009</u>
Current assets	\$ 101.71	\$ 138.93
Noncurrent assets	305.33	285.29
Property and equipment	<u>.05</u>	<u>.10</u>
Total assets	<u>407.09</u>	<u>424.32</u>
Current liabilities	41.11	32.55
Noncurrent liabilities	<u>277.74</u>	<u>302.70</u>
Total liabilities	<u>318.85</u>	<u>335.25</u>
Invested in capital assets	.05	.10
Restricted	24.48	24.18
Unrestricted	<u>63.71</u>	<u>64.79</u>
Total net assets	<u>\$ 88.24</u>	<u>\$ 89.07</u>

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

	Business-type Activities	
	<u>2010</u>	<u>2009</u>
Operating revenues	\$ 16.07	\$ 16.82
Operating expenses	<u>19.17</u>	<u>20.40</u>
Operating loss	<u>(3.10)</u>	<u>(3.58)</u>
Nonoperating revenue (expense)	<u>2.27</u>	<u>(20.16)</u>
Change in net assets	<u>\$ (.83)</u>	<u>\$ (23.74)</u>

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Analysis of Overall Financial Position and Results of Operations

The decrease in total assets and total liabilities in fiscal year 2010 occurred because the Authority used the proceeds from maturing investments to make a portion of the principal payments due during the year on its long-term debt.

The decrease in the Authority's net assets was primarily due to the decline in value in the Authority's Venture Capital investments. This valuation was conducted as part of the Authority's program assessment procedures.

Operating revenues declined in 2010 due to reduced interest receipts from participants on their loans borrowed from the Authority. This variance was expected since the principal payments received from the borrowers have exceeded the amount of new loans over the past several years. Similarly the Authority's operating expenses also declined in 2010 since interest payments decreased from fiscal year 2009 due to the Authority's redemption of its long-term debt.

The Nonoperating expense reported by the Authority in fiscal year 2009 occurred due to the transfer of the Authority's equity interest in the Ambulance and Fire Truck loan programs to the State of Illinois.

Financial Analysis of the Authority's Funds

The Authority has 3 major enterprise funds.

General Operating Fund – The operating fund of the Authority which receives all revenues from program applications. All administrative expenses for establishing and monitoring the Authority's programs are paid out of this fund. During fiscal year 2010 the unrestricted fund net assets in this fund increased by \$1.75 million to \$40.88 million. The major reason for this increase in net assets was due to better than expected results in the Authority's operations. The Authority generated more fee income than anticipated due to an increase in the number of revenue bonds issued during year.

Bond Fund – The purpose of the fund is to collect bond proceeds, purchase participating institutions securities and remit bond issuance costs paid for with bond proceeds. The fund also collects interest and principal payments from the participating institutions and makes payments and interest on the bonds payable. During fiscal year 2010 the restricted fund net assets in this fund increased by \$0.12 million to \$1.76 million. This increase was due to the fact that the Authority transferred \$0.07 million from the special reserve fund in 2010. This transfer was used to fund a reserve fund established with the issuance of the 2009A Revenue Bonds.

Venture Investment Fund - The Illinois Venture Investment Fund Program was established to provide seed and investment capital to induce enterprises to remain, expand, and locate in Illinois. This fund is used to account for the activities of this program. During fiscal year 2010

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the unrestricted fund net assets in this fund decreased by \$2.86 million to \$2.51 million. This decrease was caused by a decline in the value of the Venture Capital Investments.

In accordance with Generally Accepted Accounting Principles the Authority also reports the aggregate net assets, revenues, expenses and changes in fund nets and cash flows of its nonmajor funds. During fiscal year 2010 these funds together reported an increase in fund net assets of \$0.16 million. This increase was generated by interest and investment income earned on investments.

As of June 30, 2010 the Authority's nonmajor funds in aggregate reported unrestricted net assets of \$20.36 million and restricted net assets of \$22.71 million. The majority of the restricted net assets held by the Authority's nonmajor funds were restricted to secure the state loan guarantees.

Discussion of Significant Capital Assets and Long-Term Debt Activity

Capital Assets

The Authority has established a policy of capitalizing assets as described in Note 2(j) to the financial statements. The Authority's investment in capital assets, net of accumulated depreciation, for business-type activities as of June 30, 2010 was \$48,721.

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

Long-Term Debt

Long-term debt is incurred only to raise the capital necessary to provide low cost financing to businesses, agribusinesses, health care facilities, educational facilities, municipalities, and other organizations in order to stabilize and strengthen the Illinois economy in areas of job creation and job retention. The majority of the Authority's debt is classified as conduit debt. Under Generally Accepted Accounting Principles conduit debt refers to certain limited-obligation revenue bonds issued for the express purpose of providing capital financing for a specific third party. All of the Authority's conduit debt is payable solely from revenues or funds pledged or available for their repayment as authorized by the Illinois Finance Authority act. Neither the faith and credit nor the taxing power of the State of Illinois is pledged to the payment of the principal or interest on these bonds. In accordance with Generally Accepted Accounting Principles the Authority's conduit debt obligations are not reported as liabilities in the Authority's basic financial statements. The Authority issued 52 separate conduit debt issues in fiscal year 2010 with an aggregate principal amount of \$3.4 billion. As of June 30, 2010, the aggregate amount of conduit debt outstanding is approximately \$24.4 billion.

The Authority also issues revenue bonds for the purpose of providing loans to other agencies and component units of the State of Illinois. Although similar to conduit bonds, since these bonds are issued for the benefit of third parties that are part of the Authority's financial reporting entity, they do not meet the definition of conduit debt under Generally Accepted Accounting Principles

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and thus are reported as liabilities on the Authority's basic financial statements. As of June 30, 2010 the aggregate amount of intra-state debt outstanding is \$225.27 million.

The Illinois Finance Authority Act also allows the Authority to issue revenue bonds with the State's moral obligation attached. This pledge states that in the event that money will not be available for the payment of principal and interest of these obligations, the Governor is to request the shortfall amount be appropriated by the General Assembly. The Authority issued one revenue bond with the State's moral obligation in fiscal year 2010 with an aggregate principal amount of \$4.46 million. As of June 30, 2010 the aggregate amount of revenue bonds with the State's moral obligation attached is \$54.39 million.

In addition to its revenue bonds the Authority also has outstanding loans with the US Department of Agriculture for \$0.66 million and with the State of Illinois for \$19.72 million. These loans were incurred to provide the funding for the Authority's Rural Development Loan Program and the Fire Truck and Ambulance Revolving Loan Programs.

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

Relevant Current Economic Factors, Decisions and Conditions

In a time of national recession and budgetary crisis at the State, local and national level, the Authority is a model of accountability, transparency and efficiency in fulfilling its public mission to facilitate economic development by creating and retaining jobs for the people of Illinois. Created on January 1, 2004, through the consolidation and elimination of seven statutory governmental entities, the Authority is a body politic and corporate of the State of Illinois. No State appropriations support the administration and operation of the Authority although it does administer a limited number of full and contingent State-backed loan guarantee or credit enhancement programs. The Authority supports its administration and operations from fees charged to borrowers as the State of Illinois's state-wide issuer of federally tax-exempt debt as well as through interest charged to borrowers as well as certain fees and investments.

Organizationally, the Authority reflects Illinois policy priorities established by our Governor and our General Assembly. The Authority is a construct of federalism. The Authority is the Illinois delivery system of a system of federal benefits available to not-for-profit borrowers and certain individual and private corporate borrowers primarily for capital projects under the federal Internal Revenue Code of 1986 as amended.

Through the 2004 consolidation, the Authority reduced the number of board members overseeing its public economic development functions from 47 to 15 and reduced the number of employees implementing those functions from 41 to 19. In Fiscal Year 2011 ("FY '11"), the Authority's operations budget (less loan loss reserves) is estimated to be \$4 million. The estimated FY '11 budget represents a decrease of over 20% from Fiscal Year 2008 (FY '08 budget was just over \$6 million). The Authority reduced its staff and budget while maintaining the high level of

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professionalism, efficiency and predictability that it's not-for-profit as well as private corporate and individual borrowers have come to expect. For example, the Authority worked with Governor Quinn and the Illinois General Assembly during the 96th General Assembly to:

- Clarify contingent State-backed credit enhancement for energy efficiency, renewable energy and clean coal projects,
- Allow stranded funds to be effectively utilized as an additional reserve fund to support the Authority's existing portfolio of Agricultural Guarantee loans in a time of recession,
- Allow the voluntary pooling of federal stimulus financing tools such as Recovery Zones and Qualified Energy Conservation bond authorization in order to maximize the use of these programs,
- Allow multistate federally tax-exempt financings as long as there are demonstrated public and economic benefit to the people of Illinois,
- Increase transparency and accountability in conduit bond finance when the issuer is not directly accountable to Illinois policy makers.

In addition and anticipating a decline in issuance volume in the Authority's core not-for-profit hospital and higher education sectors, the Authority leadership took a series of very difficult personnel decisions to align its organizational cost structure with anticipated revenues.

The results of these efforts were dramatic. The Authority was able to maximize the use of stimulus financing tools (recovery zone, federal home loan letter of credit, bank qualified, alternative minimum tax) to benefit borrowers while being able to withstand a substantial decrease in conduit issuances (\$4.7 billion in calendar year 2009 to \$3 billion in calendar year 2010) and increasing reserves for loan defaults under its State and Authority backed loan and guarantee programs.

In early 2011 the Authority decided to discontinue the Authority's Venture Capital investment program. The Authority's management is currently exploring how to divest the remaining program investments.

As the Authority prepares its budget for consideration by its Board in July 2011 with a view towards performance-based budgeting, the Authority must implement its plans in a very challenging environment. These challenges include but are not limited to:

- Continued national decline in volume of tax-exempt municipal bond issuances (includes general obligation issuers). First quarter 2011 was the lowest volume of municipal federally tax-exempt issuance in a decade.
- Continuing discussion at the federal level regarding the reduction or elimination of federal tax-exemption.
- Efforts by federal Securities and Exchange Commission to regulate appointed board members of municipal issuers such as the Authority as "municipal advisors"
- Uncertainty over the impact of federal healthcare reform on not-for-profit hospital borrowers (67.7% of the Authority issuance volume since 2004).

STATE OF ILLINOIS
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Statement of Net Assets
June 30, 2010

Assets	General Operating Fund	Bond Fund	Venture Investment Fund	Nonmajor Funds	Total
Current assets:					
Cash and cash equivalents - unrestricted	\$ 22,316,582	\$ -	\$ -	\$ 16,053,599	\$ 38,370,181
Investments - unrestricted	85,000	-	-	-	85,000
Restricted current assets					
Cash and cash equivalents	-	7,317,306	-	2,950,138	10,267,444
Securities lending collateral equity with State Treasurer	-	-	-	6,325,672	6,325,672
Accrued interest receivable	-	1,989,497	-	5,196	1,994,693
Restricted investments	-	23,563,674	-	-	23,563,674
Bonds and notes receivable	-	3,546,000	-	-	3,546,000
Bonds and notes receivable from primary government	-	9,760,000	-	-	9,760,000
Bonds and notes receivable from component units of State	-	1,438,145	-	-	1,438,145
Loans receivable	-	-	-	1,675,140	1,675,140
Allowance for doubtful accounts	-	-	-	(91,484)	(91,484)
Due from other funds	-	-	-	564	564
Current portion of deferred issuance costs	-	22,150	-	-	22,150
Receivables:					
Accounts	109,681	25,000	-	-	134,681
Allowance for doubtful accounts	(32,977)	-	-	-	(32,977)
Loans receivable	3,388,304	-	-	1,023,777	4,412,081
Interest and other	123,643	-	-	975	124,618
Current portion of deferred issuance costs	59,305	-	-	-	59,305
Due from other funds	1,447	-	-	1,743	3,190
Prepaid expenses and deposits	56,247	-	-	-	56,247
Total current assets	26,107,232	47,661,772	-	27,945,320	101,714,324
Noncurrent assets:					
Restricted noncurrent assets					
Cash and cash equivalents	-	-	-	18,195,707	18,195,707
Interest receivable	-	-	-	6,000	6,000
Guarantee payments receivable	-	-	-	823,552	823,552
Allowance for doubtful accounts	-	-	-	(823,552)	(823,552)
Deferred issuance costs, net of accumulated amortization	-	101,832	-	-	101,832
Investments	-	84,606,994	-	-	84,606,994
Bonds and notes receivable	-	41,588,874	-	-	41,588,874
Bonds and notes receivable from primary government	-	65,745,267	-	-	65,745,267
Bonds and notes receivable from component units of State	-	52,149,863	-	-	52,149,863
Loans receivable	-	-	-	20,391,097	20,391,097
Allowance for doubtful accounts	-	-	-	(29,746)	(29,746)
Investments in partnerships and companies	-	-	2,512,917	-	2,512,917
Loans receivable	19,883,000	-	-	3,285,525	23,168,525
Allowance for doubtful accounts	(3,404,769)	-	-	-	(3,404,769)
Property and equipment, at cost	458,907	-	-	-	458,907
Accumulated depreciation	(410,186)	-	-	-	(410,186)
Deferred issuance costs, net of accumulated amortization	297,343	-	-	-	297,343
Total noncurrent assets	16,824,295	244,192,830	2,512,917	41,848,583	305,378,625
Total assets	42,931,527	291,854,602	2,512,917	69,793,903	407,092,949

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June 30, 2010

	General Operating Fund	Bond Fund	Venture Investment Fund	Nonmajor Funds	Total
Liabilities					
Current liabilities:					
Accounts payable	115,651	38,551	-	-	154,202
Accrued expenses	318,063	-	-	-	318,063
Obligation under securities lending of State Treasurer	-	-	-	6,325,672	6,325,672
Accrued interest payable	-	4,973,382	-	3,301	4,976,683
Due to employees	161,834	-	-	-	161,834
Due to primary government	223,108	395,315	-	1,376,142	1,994,565
Bonds payable, current	-	4,025,000	-	-	4,025,000
Bonds payable, primary government	-	19,520,000	-	-	19,520,000
Bonds payable, components units of State	-	1,798,150	-	-	1,798,150
Current portion of long-term debt	-	-	-	57,073	57,073
Deferred loss on early extinguishment of debt	-	(8,744)	-	-	(8,744)
Unamortized issuance premium, current	-	993,783	-	-	993,783
Due to other funds	2,307	-	-	1,447	3,754
Deferred revenue, net of accumulated amortization	82,587	-	-	-	82,587
Other liabilities	707,455	-	-	-	707,455
Total current liabilities	1,611,005	31,735,437	-	7,763,635	41,110,077
Noncurrent liabilities:					
Noncurrent portion of long-term debt	-	-	-	603,136	603,136
Accrued expenses	-	87,749	-	-	87,749
Bonds payable, noncurrent	-	50,360,000	-	-	50,360,000
Bonds payable, primary government	-	146,310,000	-	-	146,310,000
Bonds payable, components units of State	-	57,645,100	-	-	57,645,100
Deferred revenue net of accumulated amortization	434,980	-	-	-	434,980
Due to primary government	-	-	-	18,347,193	18,347,193
Unamortized issuance premium	-	4,028,468	-	-	4,028,468
Deferred loss on early extinguishment of debt	-	(75,385)	-	-	(75,385)
Total noncurrent liabilities	434,980	258,355,932	-	18,950,329	277,741,241
Total liabilities	2,045,985	290,091,369	-	26,713,964	318,851,318
Net Assets					
Invested in capital assets	48,721	-	-	-	48,721
Restricted	-	1,763,233	-	22,714,320	24,477,553
Unrestricted	40,836,821	-	2,512,917	20,365,619	63,715,357
Total net assets	\$ 40,885,542	\$ 1,763,233	\$ 2,512,917	\$ 43,079,939	\$ 88,241,631

STATE OF ILLINOIS
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Statement of Revenues, Expenses, and Changes in Fund Net Assets
For the Year Ended June 30, 2010

	General Operating Fund	Bond Fund	Venture Investment Fund	Nonmajor Funds	Total
Operating revenues:					
Interest on loans	\$ 1,018,399	\$ -	\$ -	\$ 100,077	\$ 1,118,476
Interest on loans (security for revenue bonds)	-	8,660,961	-	-	8,660,961
Application fees	96,900	-	-	1,000	97,900
Annual fees	848,716	61,246	-	-	909,962
Administrative service fees	5,031,842	-	-	-	5,031,842
Bad debt recoveries	139,163	-	-	-	139,163
Miscellaneous	101,802	-	-	7,320	109,122
Total operating revenues	<u>7,236,822</u>	<u>8,722,207</u>	<u>-</u>	<u>108,397</u>	<u>16,067,426</u>
Operating expenses:					
Employee related expenses	3,161,671	-	-	-	3,161,671
Professional services	1,213,408	82,049	-	492	1,295,949
Depreciation	49,963	-	-	-	49,963
Occupancy costs	371,620	-	-	-	371,620
Interest expense	-	13,479,473	-	6,882	13,486,355
General and administrative	313,278	-	-	-	313,278
Loan loss provision	485,733	-	-	-	485,733
Total operating expenses	<u>5,595,673</u>	<u>13,561,522</u>	<u>-</u>	<u>7,374</u>	<u>19,164,569</u>
Operating income (loss)	<u>1,641,149</u>	<u>(4,839,315)</u>	<u>-</u>	<u>101,023</u>	<u>(3,097,143)</u>
Nonoperating revenues (expenses):					
Interest and investment income	26,718	4,889,201	73,108	141,601	5,130,628
Net depreciation in fair value of investments	-	-	(2,864,822)	-	(2,864,822)
Total nonoperating revenues (expenses), net	<u>26,718</u>	<u>4,889,201</u>	<u>(2,791,714)</u>	<u>141,601</u>	<u>2,265,806</u>
Transfers					
Transfers from other funds	81,608	70,000	-	-	151,608
Transfers to other funds	-	-	(73,108)	(78,500)	(151,608)
Total transfers	<u>81,608</u>	<u>70,000</u>	<u>(73,108)</u>	<u>(78,500)</u>	<u>-</u>
Change in net assets	<u>1,749,475</u>	<u>119,886</u>	<u>(2,864,822)</u>	<u>164,124</u>	<u>(831,337)</u>
Net assets - beginning of year	<u>39,136,067</u>	<u>1,643,347</u>	<u>5,377,739</u>	<u>42,915,815</u>	<u>89,072,968</u>
Net assets - end of year	<u>\$ 40,885,542</u>	<u>\$ 1,763,233</u>	<u>\$ 2,512,917</u>	<u>\$ 43,079,939</u>	<u>\$ 88,241,631</u>

See accompanying notes to financial statements.

STATE OF ILLINOIS
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Statement of Cash Flows
For the Year Ended June 30, 2010

	General Operating Fund	Bond Fund	Venture Investment Fund	Nonmajor Funds	Total
Cash flows from operating activities:					
Cash received for fees and other	\$ 6,710,681	\$ 61,246	\$ -	\$ 1,000	\$ 6,772,927
Cash payments for employee services	(3,079,839)	-	-	-	(3,079,839)
Cash payments to suppliers for goods and services	(1,810,035)	(58,935)	-	(492)	(1,869,462)
Net cash provided by operating activities	<u>1,820,807</u>	<u>2,311</u>	<u>-</u>	<u>508</u>	<u>1,823,626</u>
Cash flows from noncapital financing activities:					
Proceeds from the State of Illinois to make loans	-	-	-	250,000	250,000
Bonds and notes principal payments	-	(25,874,805)	-	(56,509)	(25,931,314)
Proceeds from issuance of Revenue Bonds	-	4,460,000	-	-	4,460,000
Interest payments	-	(14,900,058)	-	(7,164)	(14,907,222)
Principal paid to State	-	-	-	(778,188)	(778,188)
Due from other funds	(54,182)	-	-	(15,973)	(70,155)
Due to other funds	48,406	-	-	21,749	70,155
Transfers from other funds	81,608	70,000	-	-	151,608
Transfers to other funds	-	-	(73,108)	(78,500)	(151,608)
Net cash provided by (used in) noncapital financing activities	<u>75,832</u>	<u>(36,244,863)</u>	<u>(73,108)</u>	<u>(664,585)</u>	<u>(36,906,724)</u>
Cash flows from investing activities:					
Purchase of investments	-	(121,798,858)	-	-	(121,798,858)
Maturity and sales of investments	-	133,099,914	-	-	133,099,914
Interest and dividends on investments	26,718	3,025,871	73,108	142,601	3,268,298
Cash received for interest on loans	1,092,816	8,722,052	-	100,700	9,915,568
Cash received on loan receivables and guarantees	4,649,745	18,415,919	-	2,459,186	25,524,850
Cash payments for loan receivables and guarantees	(768,262)	(11,552,416)	-	(1,700,000)	(14,020,678)
Net cash provided by (used in) investing activities	<u>5,001,017</u>	<u>29,912,482</u>	<u>73,108</u>	<u>1,002,487</u>	<u>35,989,094</u>
Net increase (decrease) in cash and cash equivalents	6,897,656	(6,330,070)	-	338,410	905,996
Cash and cash equivalents at beginning of year	<u>15,418,926</u>	<u>13,647,376</u>	<u>-</u>	<u>36,861,034</u>	<u>65,927,336</u>
Cash and cash equivalents at end of year	<u>\$ 22,316,582</u>	<u>\$ 7,317,306</u>	<u>\$ -</u>	<u>\$ 37,199,444</u>	<u>\$ 66,833,332</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:					
Operating income (loss)	\$ 1,641,149	\$ (4,839,315)	\$ -	\$ 101,023	\$ (3,097,143)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation	49,963	-	-	-	49,963
Interest on loans	(1,018,399)	(8,660,961)	-	(100,077)	(9,779,437)
Interest expense	-	13,479,473	-	6,882	13,486,355
Amortization of bond issuance costs	67,152	24,550	-	-	91,702
Amortization of deferred revenue	(92,429)	-	-	-	(92,429)
Bad debt recoveries	(139,163)	-	-	-	(139,163)
Loan loss provision	485,733	-	-	-	485,733
Changes in assets and liabilities:					
Accounts receivable	1,694	-	-	(7,320)	(5,626)
Other liabilities	707,455	-	-	-	707,455
Prepaid expenses and deposits	2,024	-	-	-	2,024
Accounts payable and accrued expenses	33,795	(1,436)	-	-	32,359
Due to employees	81,833	-	-	-	81,833
Net cash provided by operating activities	<u>\$ 1,820,807</u>	<u>\$ 2,311</u>	<u>\$ -</u>	<u>\$ 508</u>	<u>\$ 1,823,626</u>
Noncash investing activities					
Change in fair value of investments in partnerships and companies	\$ -	\$ -	\$ (2,864,822)	\$ -	\$ (2,864,822)
Change in fair value of investments	-	136,170	-	-	136,170

See accompanying notes to financial statements.

**STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
(A Component Unit of the State of Illinois)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

(1) ORGANIZATION

The Illinois Finance Authority (Authority) is a body politic and corporate created July 17, 2003 by Public Act 93-205, effective January 1, 2004. Public Act 93-205 consolidated seven of the State's existing finance authorities into the Authority. The Authority succeeded to the rights and duties of the existing finance authorities as of January 1, 2004. Public Act 93-205 also repealed the existing finance authorities' authorizing legislation. The mission of the Authority is statutorily defined as follows in the Illinois Finance Authority Act (20 ILCS 3501/801 et. Seq.):

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

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

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Financial Reporting Entity

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

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

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

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(b) Basis of Presentation

The accounts of the Authority are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenses, as appropriate. The emphasis on fund financial statements is on a major proprietary fund (enterprise); each is displayed in a separate column. All remaining proprietary funds are aggregated and reported as nonmajor funds. All agency administered funds are non-appropriated. The Authority has the following major proprietary funds:

General Operating Fund - The operating fund of the Authority which receives all revenues from program applications. All administrative expenses for establishing and monitoring the Authority's programs are paid out of this fund as set forth in Public Act 93-205.

Bond Fund - Each bond issue is comprised of several accounts as required by the bond indenture. The accounts of all the issues have been aggregated and reported as the Bond Fund. These are non-appropriated accounts maintained by the trustee. The purpose of the fund is to collect bond proceeds, purchase participating institutions securities and remit bond issuance costs paid for with bond proceeds. The fund also collects interest and principal payments from the participating institutions and makes payments and interest on the bonds payable.

Venture Investment Fund - The Illinois Venture Investment Fund Program was established to provide seed and investment capital to induce enterprises to remain, expand, and locate in Illinois. It was created by statute with appropriations from the State of \$2,000,000. This fund is used to account for the activities of this program.

(c) Basis of Accounting

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

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

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(d) Cash and Cash Equivalents

For the purposes of the statements of cash flows, all highly liquid investments with a maturity of three months or less when purchased are considered cash equivalents.

(e) Restricted Assets

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

(f) Investments

Investments in marketable securities are reported at fair value based on quoted market prices. Investments in venture capital companies are reported at fair value based upon the lower of cost or estimated market value. Investment contracts are considered to be Guaranteed Investment Contracts. These contracts are reported at fair value based on quoted market prices.

(g) Deferred Issuance Costs, Issuance Premium and Deferred Revenue

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

(h) Deferred Loss on Early Extinguishment

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

(i) Interfund Transactions

The Authority has the following types of interfund transactions:

Loans and Advances - amounts provided with a requirement for repayment. Interfund loans are reported as interfund receivables (i.e. due from other funds) in lender funds and interfund payables (i.e. due to other funds) in borrower funds.

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Reimbursements - repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursements are reported as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.

Transfers - Amounts provided to other funds which will not be repaid.

(j) Capital Assets

Capital assets, which include property and equipment, are reported at historical cost. Capital assets are depreciated using the straight-line method. Depreciation of property and equipment used by the Authority is charged as an expense against the Authority's General Operating Fund. Capital assets and accumulated depreciation is reported in Note 12 to the financial statements.

Capitalization thresholds and the estimated useful lives are as follows:

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

(k) Vacation and Sick Leave

The Authority's employees earn vacation and sick leave pay. Earned vacation days are allowed to be carried over into the next calendar year. Sick days have to be taken during the fiscal year and cannot be accumulated and carried over to the next fiscal year. Vacation time carried over must be used during the ensuing fiscal year or it will be paid out at a rate of 50% of the value during the fiscal year in which it was earned. Upon termination, any unused vacation days will be paid to the employee. Vacation leave pay is accrued when earned. The current liability is recorded in the General Operating Fund.

Activity related to accrued vacation leave for the year ended June 30, 2010, consisted of the following:

Balance June 30, 2009	Earned	Paid	Balance June 30, 2010	Due Within One Year
\$ 80,002	\$ 99,020	\$ 100,049	\$ 78,973	\$ 78,973

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(l) Termination Benefits

Separation agreements the Authority agreed to with nine employees granted them severance benefits. These benefits include continued payments of the employee's salary and health insurance premiums from one to eleven months depending on the agreement. The liability has been calculated based on the employee's last salary amount and includes salary related costs (e.g. social security and Medicare tax). The total cost of termination benefits incurred during fiscal year 2010 is \$290,183.

(m) Net Assets

In the financial statements, net assets are displayed in three components as follows:

Invested in Capital Assets - This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of these assets.

Restricted - This consists of net 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 Authority's policy to use restricted resources first, then unrestricted resources when they are needed. As of June 30, 2010, the Authority had restricted net assets of \$24,477,553 of which \$17,575,957 is restricted by enabling legislation.

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

(n) Classification of Revenues

The Authority has classified its revenues as either operating or nonoperating. Operating revenue includes activities that have the characteristics of exchange transactions including interest on loans, application fees, annual fees, and administrative service fees. Nonoperating revenue includes activities that have the characteristics of nonexchange transactions or activities that are ancillary to the operations of the Authority including interest and investment income.

(o) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial

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statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(p) Conduit Debt Obligations

In accordance with Illinois Compiled Statutes, the Authority issues limited obligation revenue bonds and participate in lending and leasing agreements to provide low cost financing to businesses, agribusinesses, health care facilities, educational facilities, municipalities, and other organizations in order to stabilize and strengthen the Illinois economy in areas of job creation and job retention. The bonds and leases are secured by the property financed. Upon repayment of the debt, ownership of the acquired facilities transfers to the entity served by the issuance. Neither the Authority, State, nor any political subdivision thereof is obligated in any manner for repayment of the debt. Accordingly, the bonds and leases are not reported as liabilities in the Authority's basic financial statements. As of June 30, 2010, the aggregate amount of conduit debt outstanding is approximately \$24.4 billion.

(q) Adoption of New Accounting Principles

The Authority implemented the following Governmental Accounting Standards Board (GASB) Statements effective July 1, 2009: Statement No. 51, Accounting and Financial Reporting for Intangible Assets, Statement No. 53, Accounting and Financial Reporting for Derivative Instruments. The Authority performed an analysis and the above GASB Statements were not applicable in the current fiscal year, but they could be in the future years.

(3) CASH AND INVESTMENTS

Cash and Investments as of June 30, 2010 are classified in the accompanying financial statements as follows:

Cash and cash equivalents - unrestricted	\$ 38,370,181
Cash and cash equivalents - restricted current assets	10,267,444
Cash and cash equivalents - restricted noncurrent assets	18,195,707
Investments - unrestricted	85,000
Investments - restricted current assets	23,563,674
Investments - restricted noncurrent assets	84,606,994
Investments in partnerships and companies	<u>2,512,917</u>
Total	<u><u>\$177,601,917</u></u>

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Cash and investments as of June 30, 2010 consist of the following:

Deposits with financial institutions	\$ 6,652,994
Deposits with State of Illinois Treasurer	17,569,957
Investments	<u>153,378,966</u>
 Total	 <u>\$177,601,917</u>

The Authority is permitted by Illinois Statutes and by its investment policy to invest any of its funds in:

- (a) Federal Government Securities, including securities of the federal agencies.
- (b) Securities guaranteed by the federal government.
- (c) Savings accounts, certificates of deposit, time deposits in banks or savings and loans insured by the Federal Deposit Insurance Corporation (FDIC) and any deposits in excess of amounts insured by the FDIC are collateralized.
- (d) Short-term obligations of U.S. corporations with assets exceeding \$500,000,000 and rated investment grade and which mature not later than 180 days from the date of purchase, provided that such obligations do not exceed 10% of the corporation's outstanding obligations and no more than one-third of the Authority's funds are invested in such obligations.
- (e) Money market mutual funds registered under the Investment Company Act of 1940 provided the portfolio is limited to either U.S. government or government-backed securities.
- (f) Shares of other forms of securities legally issued by savings banks or savings and loan associations, if such securities are insured by the FDIC.
- (g) Dividend-bearing share accounts, share certificate accounts or class of share accounts of a credit union, if insured under applicable law.
- (h) The Illinois Public Treasurer's Investment Pool.
- (i) A fund managed, operated, and administered by a bank, subsidiary of a bank, or subsidiary of a bank holding company or uses the services of such an entity to hold and invest or advise regarding the investment.
- (j) Repurchase agreements of government securities.

In addition, the Authority is authorized by its enabling legislation to invest in obligations issued by any State, unit of local government, or school district that carry investment grade ratings, and equity securities of a registered investment company.

The Authority's investment policy excludes funds committed to credit enhancement, federally assisted programs and funds held by bond trustees that are governed by the provisions of bond agreements. The investment of these funds is governed by the applicable authorizing statutes. The allowable investments are as follows:

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Credit Enhancement Funds

Moneys in the Debt Service Reserve Fund shall be invested or reinvested by the Trustee in permitted investments, including federal securities, and any other obligations which were permitted under the Act (the Illinois Development Finance Authority Act, 20 ILCS 3505/1 et seq., as amended) and consented to by the holders of at least two-thirds in aggregate principal amount of the bonds then outstanding with a maturity of not more than one year.

Moneys in the Reserve Fund may be invested in qualified investments, including direct obligations of the United States of America; obligations, debentures, notes, or other evidences of indebtedness issued or guaranteed; New Housing Authority Bonds or Project Notes issued by public agencies or municipalities; interest-bearing demand or time deposits in banks or savings and loan associations insured by the Federal Deposit Insurance Corporation; the Public Treasurers' Investment Pool of the State of Illinois; repurchase agreements with banks which are members of the federal reserve system or with government bond dealers; and obligations issued by or on behalf of a state or political subdivision.

Federally Assisted Programs

Federally assisted program fund reserves and other cash shall be deposited in accounts in banks or other financial institutions. Such accounts will be fully covered by Federal Deposit Insurance Corporation or fully collateralized with U.S. Government Obligations, and must be interest bearing.

Bond Funds

Investment of bond funds shall be made in investment obligations, including federal securities; bonds, notes, debentures, or similar obligations; interest-bearing savings accounts, interest-bearing certificates of deposit or interest-bearing deposits or any other investments constituting direct obligations of any bank, as defined by the Illinois Banking Act, which is fully insured by the Federal Deposit Insurance Corporation or collateralized with federal securities; short-term obligations of corporations organized in the U.S. with assets exceeding \$500,000,000; money market mutual funds registered under the Investment Company Act of 1940; short-term discount obligations of the Federal National Mortgage Association; shares or other forms of securities legally issuable by savings and loan associations; obligations the interest upon which is tax-exempt under Section 103 of the Code; repurchase agreements of government securities; and any investment which was permitted by the Rural Bond Bank Act.

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Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Authority manages its exposure to interest rate risk by basing its investment decisions regarding maturity dates and rates on an analysis of the Authority's short-, mid-, and long-term cash needs and keeping the portfolio sufficiently liquid to enable the Authority to meet its operating requirements. In addition, the Authority's Investment policy limits any new investments to maturities of 5 years or less unless approved by the Executive Director.

As of June 30, 2010, the Weighted Average Maturity of the Authority's investments were:

Investment Type	June 30, 2010	Weighted Average Maturity (in years)
Federal agency securities	\$ 55,483,423	3.91
State investment pool (Illinois Funds)	32,885,109	0.08
Money market funds	9,810,271	N/A
Investment contracts (Bond Fund)	8,790,746	10.25
Commercial paper	43,896,500	0.25
Investment in partnerships and companies	2,512,917	N/A
Total	\$ 153,378,966	

Credit Risk

Generally, credit risk is the risk that an issuer of a debt investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Authority's Investment policy on credit risk is limiting the investments to high rated securities and diversifying the portfolio to limit exposure. Presented below is the rating as of year end for each investment type:

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<u>Investment Type</u>	<u>June 30, 2010</u>	<u>Exempt From Disclosure</u>	<u>Ratings as of Year End</u>		
			<u>AAA</u>	<u>A-1</u>	<u>Not Rated</u>
Federal agency securities	\$ 55,483,423	\$ -	\$ 55,483,423	\$ -	\$ -
State investment pool	32,885,109	-	32,885,109	-	-
Money market funds	2,502,884	-	2,502,884	-	-
Held by bond trustee:					
Money market funds	7,307,387	-	7,307,387	-	-
Investment contracts (Bond Fund)	8,790,746	-	-	-	8,790,746
Commercial paper	43,896,500	-	-	43,896,500	-
Investments in partnerships and companies	2,512,917	2,512,917	-	-	-
Total	\$ 153,378,966	\$ 2,512,917	\$ 98,178,803	\$ 43,896,500	\$ 8,790,746

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the concentration of an entity's investment in a single issuer. To reduce the risk of loss resulting in excess concentrations in a specific type, maturity, issuer or class of securities, the Authority's investment policy places the following restrictions on concentrations of investments:

- a) Certificates of Deposit from any single financial institution may not comprise more than 20% of the Authority's portfolio or 5% of the financial institution's total deposits.
- b) Commercial Paper purchases may not exceed 20% of the Authority's portfolio in total and 5% of Authority's portfolio in any single issuer's name.
- c) No investment category shall exceed 30% of the Authority's portfolio, with the exception of U.S. Treasury securities and cash equivalents, including certificates of deposits.

As of June 30, 2010, investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of the total Authority investments are as follows:

MetLife Funding	Bond Fund	Commercial Paper	<u>\$ 43,896,500</u>
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As of June 30, 2010, the Authority was not in compliance with Article IV, Section 4.9 of the Bond Indenture which requires that no more than one-third or 33% of the moneys relating to the bonds are invested in short term obligations of corporations organized in the United States of America with assets exceeding \$500,000,000. Investments in short-term obligation have a balance of \$43,896,500 representing 45% of the total investments of bond funds of \$97,970,270. According to the terms of the bond indenture, the Authority had 90 days to cure the default that resulted from its noncompliance. The investment matured on

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September 1, 2010 and the Authority reinvested the monies in different securities to comply with the requirements of the bond indenture.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Authority will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Authority will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Authority's Investment policy requires that any deposits in excess of amounts insured by the FDIC or SAIF (Savings Association Insurance Fund) be secured by an eligible form of collateral equal to 110% of the uninsured deposit. Eligible collateral instruments are any of the following:

- 1.) Federal government securities
- 2.) Securities guaranteed by the federal government
- 3.) Obligations of the State of Illinois
- 4.) Letters of Credit issued by the Federal Home Loan Bank of Chicago or equivalent entity
- 5.) Surety bonds issued by Municipal Bond Insurance Association (MBIA) or equivalent entity.

Third party safekeeping is required for collateral items 1, 2 and 3 above. The Authority's investment policy does not specifically address the collateralization requirements for investments.

As of June 30, 2010 all of the Authority's deposits with financial institutions in excess of federal depository limits were collateralized. The securities pledged as collateral were held with third party safekeeping in the name of the Authority. Briefly during the year, the value of the collateralized property fell below the 110%. However at June 30, 2010, the value of collateralized property was 128% of uninsured deposits.

As of June 30, 2010 all of the Authority's investments were backed by U.S. Government Treasuries held in the name of the Authority.

The Illinois Funds is an external investment pool administered by the Illinois State Treasurer. The fair value of the Authority's investment fund is the same as the value of pool shares. Although not subject to direct regulatory oversight, the fund is administered in accordance with the provisions of the Illinois Public Funds Investment Act, 30 ILCS 235.

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(4) SECURITIES LENDING TRANSACTION

Under the authority of the Treasurer's published investment policy that was developed in accordance with the State statute, the State Treasurer lends securities to broker-dealers and other entities for collateral that will be returned for the same securities in the future. The State Treasurer has, through a Securities Lending Agreement, authorized Deutsche Bank Group to lend the State Treasurer's securities to broker-dealers and banks pursuant to a form of loan agreement.

During fiscal year 2010, Deutsche Bank Group lent U.S. agency securities and received as collateral U.S. dollar denominated cash. Borrowers were required to deliver collateral for each loan equal to at least 100% of the aggregate market value of the loaned securities. Loans are marked to market daily. If the market value of collateral falls below 100%, the borrower must provide additional collateral to raise the market value to 100%.

The State Treasurer did not impose any restrictions during the fiscal year on the amount of the loans of available, eligible securities. In the event of borrower default, Deutsche Bank Group provides the State Treasurer with counterparty default indemnification. In addition, Deutsche Bank Group is obligated to indemnify the State Treasurer if Deutsche Bank Group loses any securities, collateral or investments of the State Treasurer in Deutsche Bank Group's custody. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or Deutsche Bank Group.

During the fiscal year, the State Treasurer and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in repurchase agreements with approved counterparties collateralized with securities approved by Deutsche Bank Group and marked to market daily at no less than 102%. Because the loans are terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The State Treasurer had no credit risk as a result of its securities lending program as the collateral held exceeded the fair value of the securities lent.

In accordance with GASB Statement No. 28, paragraph 9, the Office of the State Treasurer has allocated the assets and obligations at June 30, 2010 arising from securities lending agreements to the various funds of the State. The securities lending collateral invested in repurchase agreements allocated to the Illinois Agricultural Loan Guarantee Fund and Illinois Farmer Agribusiness Loan Guarantee Fund were \$3,574,387 and \$2,751,285, respectively, as of June 30, 2010.

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(5) BONDS AND LOANS RECEIVABLE

The Authority sponsors a variety of lending programs including direct lending and direct lending participation loans. The Authority also makes loans through its two federal programs, the Economic Development Administration (E.D.A.) Title IX Revolving Loan Program and the Rural Development Loan Program. Bonds receivable from local governmental units represent amounts loaned to the units through the purchase of their securities.

Illinois Housing Partnership Program

The Authority participates in the Illinois Housing Partnership Program (IHPP) which was established by the Illinois General Assembly in 1985 in order to finance the acquisition and renovation of multi-family housing units. A predecessor Authority entered into the loan program with the City of Chicago in 1986 acting as a pass-through entity. The loan is non-interest bearing, with collections due as follows:

August 1, 2016	<u>\$ 3,000,000</u>
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Direct Lending Program

The Authority provides loans to Illinois businesses that cannot obtain sufficient financing through conventional sources, by lowering the amount of equity the borrower must contribute. Financing includes up to \$250,000 to small and mid-size businesses for land, building, machinery, and equipment purchases. The Authority did not provide any new loans under this program for the year ending June 30, 2010. Loans under this program carry an interest rate of 1.5% with maturity dates up to ten years. This program has been superseded by the Direct Lending Participation Program. Total loans outstanding as of June 30, 2010, were \$107,808.

Direct Lending Participation Program

Similar to the Direct Lending Program, the Authority allows for the purchase of land, building, construction or renovation of a building, and acquisition of machinery and equipment up to the lesser of \$500,000 or 50% of the project. By purchasing a participation of the bank at a lower interest rate than the borrower would receive on its own, the Authority requires the bank to pass savings directly to the borrower. The Authority participations are on a pro rata 50/50 basis with the bank. Loans under this program carry a variable interest rate that is up to 100 basis points less than the bank's rate with maturity dates up to ten years. Total loans outstanding as of June 30, 2010, were \$23,082,861.

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The E.D.A. Title IX Revolving Loan Program

The E.D.A. Title IX Restricted Revolving Loan Program provides low-cost supplemental financing to manufacturing companies located in areas declared eligible for Title IX assistance by the E.D.A. Loans under this program are up to \$100,000 for small and mid-size manufacturers, and carry a fixed interest rate of 7.5% with maturity dates up to ten years. Total loans outstanding as of June 30, 2010, were \$91,484. The E.D.A Title IX Restricted Revolving loans are fully reserved.

The Rural Development Revolving Loan Program

The Rural Development Revolving Loan Program participates with the Rural Development Administration's (formerly the Farmers Home Administration) Intermediary Relending Program to provide loans to business facilities and community development projects in rural areas for land acquisitions, facility construction and renovation, and machinery and equipment purchases. The Authority will contribute up to 75% or \$250,000 of fixed asset costs at a 6% interest rate with maturity dates up to 20 years. Total loans outstanding as of June 30, 2010, were \$495,773.

SBA Microloan Demonstration Program

This program of the Authority accounts for the activity of loans received under the Small Business Administration (SBA) Microloan Demonstration Program. The purpose of this program is to assist women, low income, and minority entrepreneurs, and business owners, and other such individuals possessing the capability to operate successful business concerns and to assist small business concerns in those areas suffering from a lack of credit due to economic downturn as set forth under the loan agreement and the Small Business Act, 15 U.S.C. 636. Total loans outstanding as of June 30, 2010, were \$80,635. The SBA Microloans are fully reserved.

Employee Ownership Assistance Program

This program provides supplemental financing to help facilitate employee acquisition of industrial and manufacturing facilities about to close or relocate outside of Illinois. Loans are made to employee-owned enterprises and may be used to finance up to 50% of total acquisition costs. It is funded by an appropriation for these purposes of \$2,000,000 received by the prior Illinois Development Finance Authority during 1986 as set forth in Public Act 82-991. Total loans outstanding as of June 30, 2010, were \$1,000,000.

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Fire Truck Revolving Loan Program

This program provides zero interest rate loans for the purchase of fire trucks by a fire department, fire protection district, or a township fire department. The loans to each department, district or township may not exceed \$250,000 and must be repaid within 20 years. The program is funded by a transfer of \$19,000,000 from the State of Illinois, and administered by the Authority. Prior to fiscal year 2009, the Authority reported all cash, interest, miscellaneous revenues and outstanding principal balances of loans awarded on the financial statements of the Authority. During fiscal year 2009, the Authority adjusted the financial statements to make a transfer in equity back to the State, as the original revenue source of the monies in the fund are from State revenue sources. Total loans outstanding as of June 30, 2010, were \$18,730,135.

Ambulance Revolving Loan Program

This program provides zero interest rate loans for the purchase of ambulances by fire departments, fire protection districts, township fire departments and non-profit ambulance services. The loans may not exceed \$100,000 and must be repaid within 10 years. The program is funded by an appropriation of \$4,000,000 received by the State of Illinois, and administered by the Authority. During fiscal year 2009, the Authority adjusted the financial statements to make a transfer in equity back to the State, as the original revenue source of the monies in the fund are from State revenue sources. Total loans outstanding as of June 30, 2010, were \$993,200.

Local Government Financing Assistance Program

This program provides financing to units of local government located in the State of Illinois by purchasing the securities of the local governments. Total loans outstanding as of June 30, 2010, were \$309,302.

Bond Bank Lending Program

This program facilitates the financing needs of a broad array of governmental units located throughout the State. The Local Government units make payments on the loans from taxes, revenues, rates, charges or assessments, in an amount sufficient to pay the principal of and interest on its Local Government Securities when due. The program is funded by issuing Moral Obligation Revenue Bonds (Note 10). Total loans outstanding as of June 30, 2010, were \$45,134,874.

Loans with the Primary Government and Component Units of the State

The Authority has provided financing to the State of Illinois and to component units of the State of Illinois. The borrowers make payments in an amount sufficient to pay the principal of and interest on the bonds when due. Total loans outstanding as of June 30, 2010, were \$129,093,275.

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Renewable Energy Development Program

This program provides loans to qualified borrowers who construct community scale wind projects for use as alternative energy. This program was funded by a \$2,000,000 grant received from the Illinois Clean Energy Community Foundation. Total loans outstanding as of June 30, 2010, were \$1,755,645.

Allowance for Doubtful Accounts

The allowance for doubtful accounts for all loans receivable and notes receivable at June 30, 2010, is comprised of two components. Loans which are delinquent greater than 90 days are reserved for at 100% of principal outstanding. In addition, the Authority provides a general reserve at approximately 5% for the principal balance of all other loans outstanding. Loans originated by the Illinois Rural Bond Bank, Loans to the State of Illinois and Component Units of the State of Illinois, the Fire Truck Revolving Loan Program, Renewable Energy Development Fund, Ambulance Revolving Loan Program and the Local Government Financing Assistance Program have not experienced a default, therefore, the allowance for doubtful accounts based on prior experience is zero.

(6) GUARANTEE RECEIVABLES

Guarantee receivables result from amounts due to the Authority after it has paid a guarantee claim. Activity related to guarantee receivables for the year ended June 30, 2010, consisted of the following:

	Illinois Farmer Agribusiness Loan Guarantee Fund	Illinois Agricultural Loan Guarantee Fund	Total
Guarantee receivables beginning of year	\$ 652,650	\$ 170,902	\$ 823,552
Disbursements on guarantee claims	-	-	-
Payments received	-	-	-
Receivables written off	-	-	-
Gross guarantee receivables end of year	<u>652,650</u>	<u>170,902</u>	<u>823,552</u>
Allowance for doubtful accounts	<u>(652,650)</u>	<u>(170,902)</u>	<u>(823,552)</u>
Net receivables - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The allowance for doubtful accounts for all guarantee receivables at June 30, 2010, is the difference between the guarantee payments made and the Authority's estimation of the value of any collateral securing the guarantee.

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(7) INVESTMENTS IN PARTNERSHIPS AND COMPANIES

The Authority currently has investments in one (1) partnership and seven (7) companies. These investments were made to accomplish the statutory purpose of the Venture Investment Fund. There is no established market for the purchase or sale of the partnerships and company interests or the equity securities in which the partnerships have investments.

The valuation methods and significant assumptions used by the Authority include discounted cash flows and comparable data for businesses with similar products/services and/or similar market segments. The Authority also uses financial and operational information from the last investment round which is most appropriate when the firm is not publicly traded and the current cash flows are negative.

The fair value, which is reported at the lower of cost or market, of the Authority's investment in the partnerships and companies as of June 30, 2010, is reflected below:

<u>Partnership/Company</u>	<u>Recorded Book Value</u>
ARCH Development Fund Partnership	\$ 65,431
Lemko Corporation	300,000
Moire, Inc.	600,000
Open Channel Software, Inc.	250,000
Ohmx Corporation	300,000
Smart Signal	264,936
Video Home Tour	250,000
Zuchem, Inc.	482,550
Total	<u>\$ 2,512,917</u>

The following twelve (12) companies have zero values: Champaign-Urbana Venture Fund LLC, Mortgage Banking Center.com (Evantis), Mobitrac, UserActive (O'Reilly Media), Venture Capital Online, Clearstack Combustion Corporation, Harmonic Vision Inc., Metalconforming Controls Corporation, Nephrx, Neuronautics, Inc., Firefly Energy, Inc. and Stonewater Software, Inc.

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(8) INTERFUND BALANCES AND ACTIVITY:

Balances due to/from other funds and transfers made for the fiscal year ended June 30, 2010, were as follows:

Funds	Other Major Funds	Other Nonmajor Funds	Description / Purpose
Due to:			Due from:
General Operating Fund	\$ -	\$ 1,447	Title IX for a percent of interest income to be sent to E.D.A.
Total Major Funds	<u>\$ -</u>	<u>\$ 1,447</u>	
Nonmajor funds	\$ 564	\$ -	General Operating Fund for loan payments
Nonmajor funds	1,743	-	General Operating Fund for loan payments
Total	<u>\$ 2,307</u>	<u>\$ 1,447</u>	
Due from:			Due to:
General Operating fund	\$ -	\$ 564	Rural Development for loan payments
General Operating fund	-	1,743	Special Reserve for loan payments
Nonmajor funds	1,447	-	General operating for a percent of interest income to be sent to E.D.A.
Total	<u>\$ 1,447</u>	<u>\$ 2,307</u>	
Funds	Other Major Funds	Other Nonmajor Funds	Description / Purpose
Transfer to:			Transfer from:
General Operating Fund	\$ 73,108	\$ -	Transfer from Venture Capital Fund due to sales of investments
General Operating Fund	-	7,500	Transfer from Credit Enhancement Fund since funds are no longer needed for program
Bond Fund	-	70,000	Transfer from IRBB Special Reserve Fund to fund Reserve requirement
General Operating Fund	-	1,000	Transfer from the Fire Truck Revolving Fund for application fees
Total	<u>\$ 73,108</u>	<u>\$ 78,500</u>	
Transfer from:			Transfer to:
Venture Capital Fund	\$ 73,108	\$ -	General Operating Fund for excess program funds
Credit Enhancement Fund	7,500	-	General Operating Fund for excess program funds
Fire Truck Revolving Fund	1,000	-	General Operating Fund for program fees
IRBB Special Reserve Fund	70,000	-	Bond fund to fund reserve requirement
Total	<u>\$ 151,608</u>	<u>\$ -</u>	

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(9) LONG-TERM OBLIGATIONS

Intermediary Relending Program

The predecessor authorities (Note 1) entered into loan agreements, now a liability of the Authority, with the U.S. Department of Agriculture/Rural Development Administration (formerly Farmers Home Administration), a federal agency, on December 14, 1990, for funding of the Intermediary Relending Program (IRP). The funding was negotiated through a line of credit in the amount of \$1,500,000.

The loan payable is collateralized by the existing outstanding and future loans receivable of the IRP, by cash and investments recorded in the IRP fund derived from the proceeds of this loan award.

Principal and interest on the December 14, 1990 loan, at the fixed rate of 1% per annum, are being paid in 27 equal annual amortized installments of \$63,675, with any remaining balance due and payable 30 years from the date of the note.

Long-term debt is summarized as follows:

	Balance June 30, 2009	Repayments	Balance June 30, 2010	Due Within One Year
Rural Development Revolving Loan	\$ 716,718	56,509	\$ 660,209	\$ 57,073

Principal and interest payments of long-term debt at June 30, 2010, are due as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2011	\$ 57,073	\$ 6,602	\$ 63,675
2012	57,644	6,031	63,675
2013	58,220	5,455	63,675
2014	58,802	4,873	63,675
2015	59,390	4,285	63,675
2016 - 2020	305,980	12,395	318,375
2021	63,100	631	63,731
	<u>\$ 660,209</u>	<u>\$ 40,272</u>	<u>\$ 700,481</u>

Fire Truck Revolving Loan and Ambulance Revolving Loan

The Fire Truck Revolving Loan program was authorized by Public Act 94-221. The loan program is jointly administered by the Authority and the Office of the State Fire Marshall. The Fire Prevention Fund and Build Illinois Bond Fund loaned \$9 million and \$10 million,

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respectively, to the Authority to grant interest-free loans for the purchase of fire trucks by a fire department, fire protection district, or a township fire department based on need as determined by the State Fire Marshall. Under the terms of the program, the loans to any fire department, fire protection district or township fire department may not exceed \$250,000. Repayment period for each loan may not exceed 20 years and requires a minimum of 5% of the principal amount borrowed each year.

The Ambulance Revolving Loan program was authorized by Public Act 94-829. The loan program is jointly administered by the Authority and the Office of the State Fire Marshall. The Fire Prevention Fund loaned \$4 million to the Authority to grant interest-free loans for the purchase of ambulances by a fire department, fire protection district, a township fire department, or a non-profit ambulance service based on need as determined by the State Fire Marshall. Under the terms of the program, the loans to any fire department, fire protection district or non-profit ambulance service may not exceed \$100,000. Repayment period for each loan may not exceed 10 years and requires a minimum of 5% of the principal amount borrowed each year.

Due to primary government is summarized as follows:

	Balance June 30, 2009	Additions	Repayments	Balance June 30, 2010	Due Within One Year
Fire Truck Revolving Loans	\$19,258,323	\$250,000	\$778,188	\$18,730,135	\$1,215,155
Ambulance Revolving Loans	993,200	-	-	993,200	160,987
	<u>\$20,251,523</u>	<u>\$250,000</u>	<u>\$778,188</u>	<u>\$19,723,335</u>	<u>\$1,376,142</u>

Principal payments of due to primary government at June 30, 2010, are due as follows:

	<u>Fire Truck Revolving Loan</u>	<u>Ambulance Revolving Loan</u>	<u>Total</u>
Year ending June 30:			
2011	\$ 1,215,155	\$160,987	\$ 1,376,142
2012	1,215,550	160,987	1,376,537
2013	1,197,005	160,986	1,357,991
2014	1,197,005	94,320	1,291,325
2015	1,197,005	94,320	1,291,325
2016 – 2020	5,694,525	321,600	6,016,125
2021 – 2025	4,760,449	-	4,760,449
2026 – 2030	2,253,441	-	2,253,441
	<u>\$ 18,730,135</u>	<u>\$993,200</u>	<u>\$ 19,723,335</u>

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(10) REVENUE BONDS PAYABLE

Each revenue bond issue is payable only out of the trust estate established for each issue. The trust estate is comprised of all rights, title and interest of the Authority in the loan securities, the purchase agreements, the intercept proceedings and all moneys and securities held in all funds and accounts under the indenture, except moneys and securities on deposit in the redemption fund which are for the payment of the principal and interest of bonds called for redemption prior to maturity. The Authority has pledged future loan revenues to repay the outstanding principal revenue bond. Proceeds from the bonds provided financing for various loan programs. The bonds are payable solely from principal and interest revenues under the related loans and are payable through the final maturity of the bonds in 2040. Annual principal and interest payments on the bonds are expected to require approximately 100% of these loan revenues. The assets of the Bond Fund are therefore classified as restricted assets on the Statement of Net Assets.

All bonds outstanding at June 30, 2010, are revenue bonds of the Authority and are payable solely from the revenues or funds pledged or available for their payment as authorized by the Act. Neither the faith and credit nor the taxing power of the State of Illinois is pledged to the payment of the principal or interest on the bonds.

The Authority may issue revenue bonds with the State's moral obligation pledge attached. This pledge means that in the event it is determined that money will not be available for payment of principal and interest of these obligations, the Governor is to submit the shortfall amount to the General Assembly. The 1992A Revenue Bonds through the 2009 Revenue Bonds are considered moral obligation revenue bonds. The revenue bonds of the component units and primary government were not issued with the State's moral obligation pledge attached. Bonds payable at June 30, 2010, are comprised of the following individual issues:

1992A Revenue Bonds - original issue \$8,915,000, dated May 1, 1992, provides for serial retirement of principal on February 1, and interest payable on February 1 and August 1 of each year at rates of 3.70-6.625%. Final maturity is February 1, 2012.

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

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

1994A Revenue Bonds - original issue \$5,005,000, dated May 1, 1994, provides for serial retirement of principal on February 1, and interest payable on February 1 and August 1 of each year at rates of 4.000-6.375%. Final maturity is February 1, 2014.

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

1996C Revenue Bonds - original issue \$3,765,000, dated December 1, 1996, provides for serial retirement of principal beginning February 1, 1997 and every February 1 thereafter, and interest payable on February 1 and August 1 of each year at rates of 4.10-5.65%. Final maturity is February 1, 2012.

1997A Revenue Bonds - original issue \$6,285,000, dated June 1, 1997, provides for serial retirement of principal beginning February 1, 1998 and every February 1 thereafter, and interest payable on February 1 and August 1 of each year at rates of 4.40-5.80%. Final maturity is February 1, 2018.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

State of Illinois Revolving Fund, Series 2004 (Clean Water) - original issue \$130,000,000, dated May 20, 2004, provides for serial retirement of principal beginning March 1, 2005 and every September 1 and March 1, thereafter, and interest payable on March 1 and September 1 of each year at rates of 3.25% to 5.25%. Final maturity is September 1, 2023.

Illinois Medical District Commission, Series 2006A - original issue \$7,500,000, dated January 31, 2006, provides for serial retirement of principal beginning September 1, 2010 and every September 1 thereafter, and interest payable on March 1 and September 1 of each year at rates of 4.125% to 4.70%. Final maturity is September 1, 2031.

Illinois Medical District Commission, Series 2006B - original issue \$32,500,000, dated January 31, 2006, provides for serial retirement of principal beginning September 1, 2010 and every September 1 thereafter, and interest payable on March 1 and September 1 of each year at rates of 5.14% to 5.33%. Final maturity is September 1, 2031.

Northern Illinois University Foundation, Series 2006 - original issue \$9,206,100, dated August 15, 2006, provides for serial retirement of principal beginning February 15, 2007 and every February 15 and August 15 until August 15, 2012 and then every August 15

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thereafter, and interest payable February 15 and August 15 of each year at rate of 4.66%. Final maturity is August 15, 2016.

The future debt service requirements for revenue bonds as of June 30, 2010, including interest payments are as follows:

Fiscal Period Ending June 30,	Principal	Interest	Total
2011	\$ 25,343,150	\$ 13,879,707	\$ 39,222,857
2012	26,574,800	12,598,462	39,173,262
2013	24,304,500	11,301,735	35,606,235
2014	22,389,000	10,105,567	32,494,567
2015	21,887,300	8,976,861	30,864,161
2016-2020	96,404,500	28,607,353	125,011,853
2021-2025	35,830,000	11,190,483	47,020,483
2026-2030	17,195,000	4,834,835	22,029,835
2031-2035	8,265,000	948,226	9,213,226
2036-2040	1,465,000	191,656	1,656,656
	<u>\$ 279,658,250</u>	<u>\$ 102,634,885</u>	<u>\$ 382,293,135</u>

The following is a summary of the revenue bond transactions of the Authority for the year ended June 30, 2010:

Bond Series	Balance June 30, 2009	Additions	Retirements	Balance June 30, 2010	Amount Due Within One Year
1992 A Bonds	\$ 45,000	\$ -	\$ (15,000)	\$ 30,000	\$ 15,000
1992 B Bonds	190,000	-	(20,000)	170,000	25,000
1993 B Bonds	265,000	-	(50,000)	215,000	55,000
1994 A Bonds	50,000	-	(10,000)	40,000	10,000
1995 A Bonds	115,000	-	(50,000)	65,000	10,000
1996 C Bonds	145,000	-	(45,000)	100,000	50,000
1997 A Bonds	395,000	-	(285,000)	110,000	10,000
1997 B Bonds	1,295,000	-	(655,000)	640,000	95,000
1998 A Bonds	2,345,000	-	(910,000)	1,435,000	260,000
1998 B Bonds	1,825,000	-	(405,000)	1,420,000	95,000
1999 A Bonds	1,360,000	-	(80,000)	1,280,000	80,000
1999 B Bonds	15,000	-	(15,000)	-	-
2000 A Bonds	575,000	-	(175,000)	400,000	50,000
2000 B Bonds	550,000	-	(30,000)	520,000	30,000
2001 A Bonds	1,930,000	-	(175,000)	1,755,000	180,000
2001 B Bonds	4,035,000	-	(250,000)	3,785,000	265,000
2002 A Bonds	630,000	-	(95,000)	535,000	105,000
2003 A Bonds	7,525,000	-	(630,000)	6,895,000	895,000
2003 B Bonds	7,435,000	-	(445,000)	6,990,000	475,000

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Bond Series	Balance June 30, 2009	Additions	Retirements	Balance June 30, 2010	Amount Due Within One Year
2004 A Bonds	1,955,000	-	(140,000)	1,815,000	140,000
2006 A Bonds	10,485,000	-	(395,000)	10,090,000	545,000
2006 B Bonds	1,830,000	-	(55,000)	1,775,000	60,000
2007 A Bonds	6,110,000	-	(195,000)	5,915,000	210,000
2007 B Bonds	2,400,000	-	(195,000)	2,205,000	200,000
2008 A Bonds	1,780,000	-	(40,000)	1,740,000	40,000
2009 A Bonds	-	4,460,000	-	4,460,000	125,000
Northern Illinois University Series 1999	15,240,000	-	(660,000)	14,580,000	690,000
Clean Water Series 2002	90,290,000	-	(10,795,000)	79,495,000	11,295,000
Clean Water Series 2004	94,480,000	-	(8,145,000)	86,335,000	8,225,000
Illinois Medical District Commission Series 2006A	7,500,000	-	-	7,500,000	210,000
Series 2006B	32,500,000	-	-	32,500,000	150,000
Northern Illinois University Foundation Series 2006	5,778,055	-	(914,805)	4,863,250	748,150
Unamortized issuance premium	6,141,575	-	(1,119,323)	5,022,252	993,783
Total	\$ 307,214,630	\$ 4,460,000	(\$ 26,994,128)	\$ 284,680,502	\$ 26,336,933

The bond issuance fees received from local governments are deferred and amortized over the term of the bond issues. The following changes in deferred revenue occurred during the period:

	Balance June 30, 2009	Addition	Amortization	Balance June 30, 2010	Due Within One Year
Bond Issuance Fees	\$ 609,996	\$ -	\$ 92,429	\$ 517,567	\$ 82,587
	<u>\$ 609,996</u>	<u>\$ -</u>	<u>\$ 92,429</u>	<u>\$ 517,567</u>	<u>\$ 82,587</u>

(11) LEASE COMMITMENTS

The Authority is obligated under long-term operating leases for one (Chicago) of its four offices. The Mount Vernon and Peoria leases are under a month to month lease. Total rent expense for the year ended June 30, 2010 was \$261,461.

The Authority entered into a lease agreement to lease facilities at 180 North Stetson Avenue, Suite 2555, Chicago, Illinois 60601. The term of the lease is through August 2014. No payments were required under the terms of the lease for the period from June 21, 2004 through June 30, 2006. Annual base rent payments, which begin on July 1, 2006, range from approximately \$119,000 to \$149,000. In accordance with accounting principles generally accepted in the United States of America (GAAP), the total lease payments have been amortized over the term of the lease. Included in rent expense

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for the year ended June 30, 2010 is \$107,349, which represents the current year amortization.

The Authority ended its lease agreement for the facilities at 427 East Monroe Street, Suite 202, Springfield, Illinois 62701. The term of the lease was through April 2014. The Authority then entered into an Interagency Agreement with the Illinois Department of Commerce and Economic to lease office space in Springfield free of charge, effective April 29, 2009 until June 20, 2013.

The Authority entered into a lease agreement to lease facilities at 100 Southwest Water Street, Peoria, Illinois 61602. The term of the lease expired in May 2010 the Authority is currently leasing this facility on a month to month basis. Annual base rent payments are approximately \$4,524.

The Authority entered into a lease agreement to lease facilities at 2929 Broadway, Suite 7B, Mount Vernon, Illinois 62864. The term of the lease expired in March 2010 the Authority is currently leasing this facility on a month to month basis. Annual base rent payments are approximately \$11,000.

The future minimum lease commitments as of June 30, 2010 are as follows:

Fiscal Year Ending June 30,	Amount
2011	\$ 135,013
2012	139,372
2013	143,731
2014	148,090
2015	24,803
Total	<u>\$ 591,009</u>

Letter of Credit

The lease at Two Prudential Plaza requires a letter of credit of \$85,000 as a security deposit. As of June 30, 2010 no amounts have been drawn against this letter of credit.

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(12) CAPITAL ASSETS

	Balance			Balance
	June 30, 2009	Additions	Deletions	June 30, 2010
Cost				
Leasehold improvements	\$ 2,000	\$ -	\$ -	\$ 2,000
Furniture and equipment	249,842	-	-	249,842
Computers	37,619	-	4,708	32,911
Software	174,154	-	-	174,154
Total capital assets being depreciated	463,615	-	4,708	458,907
Accumulated Depreciation				
Leasehold improvements	2,000	-	-	2,000
Furniture and equipment	175,427	25,982	-	201,409
Computers	33,598	3,732	4,708	32,622
Software	153,906	20,249	-	174,155
Total accumulated depreciation	364,931	49,963	4,708	410,186
Capital assets, net of depreciation	\$ 98,684	\$ (49,963)	\$ -	\$ 48,721

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

(13) COMMITMENTS AND CONTINGENCIES

(a) Debt Service Reserve

The Authority is contingently liable for any claims (maximum of amount held in the Debt Service Reserve in the non-major Credit Enhancement Fund) submitted by the respective Bond Trustees of the prior Illinois Development Finance Authority if the company liable under the bond indenture were to default on repayment of the bond. At June 30, 2010, restricted demand deposits totaling \$625,750 were held in the Credit Enhancement Fund for this purpose.

(b) Federally Assisted Programs

The Authority participates in the following federally assisted programs:

E.D.A. Title IX-Restricted Revolving Loan Program
FmHA-Intermediary Relending Program

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Demand deposits of \$749,300 and \$1,846,720 are held in the E.D.A. Title IX Restricted Revolving Loan Fund and the Rural Development Revolving Loan Fund, respectively, and are restricted due to federal program requirements. In addition, included in restricted assets is \$466,027 in net loans receivable which secure the loans of the intermediary relending program.

(c) Loan Guarantees

The Authority has a contingent liability regarding the loan guarantees outstanding at June 30, 2010. When a guaranteed loan defaults, the Authority is responsible for 85% of the liability, with the participating lender being responsible for the remaining 15%. Any guarantee that must be paid out by the State of Illinois, because of a claim properly filed by a bank that has a guaranteed loan that has defaulted, becomes a receivable on the books of the Authority. The State Treasurer, custodian of the loan guarantee funds, maintains the cash and cash equivalents for the funds. The cash deposits totaled \$17,569,957 at June 30, 2010, and are restricted by enabling legislation to secure the state guarantees. The Authority must liquidate the loan collateral, and absorb any loss due to uncollectible amounts. Any recoveries on the defaulted loan are first used to repay the Authority's guarantee and then used to repay the lender. These future liabilities, if any, cannot be estimated. According to certifications received by the Authority from lenders, the maximum guarantees outstanding are:

State Guarantee Program for Restructuring Agricultural Debt	\$ 20,299,705
Specialized Livestock Loan Guarantee Program	8,625,470
Young Farmer Loan Guarantee Program	2,563,535
Farmer and Agri-Business Loan Guarantee Program	35,549,002
Farm Purchase	490,823

(14) RISK FINANCING ACTIVITIES

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

(15) DEFINED CONTRIBUTION PLAN

The Authority's Board of Directors approved the Illinois Finance Authority Deferred Compensation Plan. The Authority's Board of Directors has the power to amend the plan. The Plan is administered through the State of Illinois Department of Central Management Services; this plan is considered a defined contribution plan. This plan allows participants to invest a portion of their salary in a choice of investment programs. Federal and State

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income taxes are deferred on the total amount through the plan as well as on investment earnings. However, the total contributions are subject to FICA taxes. The program provides a tax sheltered retirement account. The employee may begin participating in the Deferred Compensation Plan after 30 days of employment have been completed.

The maximum contributions through the year 2010 are:

<u>YEAR</u>	<u>MAXIMUM CONTRIBUTION</u>	<u>AGE 50 CATCH UP</u>
2010	\$16,500	\$22,000

The contribution schedule requires the Authority to match \$2 for every \$1 deferred by an eligible employee up to a maximum of 5% of an employee's salary. In order to participate in this plan an employee must contribute a minimum of 1% of their salary.

Total employer and employee contributions for fiscal year 2010 were \$229,320 and \$141,093, respectively.

(16) TRANSACTIONS WITH THE PRIMARY GOVERNMENT

The Authority, a body corporate and politic, is a component unit of the State of Illinois. The Authority is principally engaged in issuing taxable and tax-exempt bonds, making loans, and investing capital for businesses, non-profit corporations, local government units, and primary government including component units of the State of Illinois. This includes moral obligation bonds which were inherited from the former Illinois Development Finance Authority used to finance a primary government project. The Authority also administers programs for the State and the related state appropriations for the programs.

Due to primary government - The Office of the Auditor General engaged an external audit firm to perform an audit of the Illinois Finance Authority's basic financial statements. The Operating General Fund of the Authority is indebted with the Office of the Auditor General in the amount of \$ 223,108 for audit related fees.

Due to primary government - The Bond Fund monies held are at the loan subaccount to support the debt service payment. These monies are payments received from the borrowers to cover the debt service payment. Total amount held as of June 30, 2010 is \$395,315.

Due to State - The Fire Truck Revolving Loan Fund is established as a special fund in the State Treasury in accordance with Section 5.595 of the Finance Act (30 ILS 105). The Fire Prevention Fund and Build Illinois Bond Fund loaned \$9 million and \$10 million, respectively, to the Authority to grant interest-free loans for the purchase of fire trucks by a fire department, fire protection district, or a township fire department based on need as determined by the State Fire Marshall. Total current portion due is \$1,215,155 and total long-term due is \$17,514,980.

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Due to State - The Ambulance Revolving Loan Fund is established as a special fund in the State Treasury in accordance with Section 5.663 of the Finance Act (30 ILCS 105). The Fire Prevention Fund loaned \$4 million to the Authority to grant interest-free loans for the purchase of ambulances by a fire department, fire protection district, a township fire department, or a non-profit ambulance service based on need as determined by the State Fire Marshall. Total current portion due is \$160,987 and total long-term due is \$832,213.

(17) NEW GOVERNMENTAL ACCOUNTING STANDARDS

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

Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The Authority is required to implement this Statement for the year ending June 30, 2011. Management has not yet completed its assessment of the impact of this GASB Statement on the Authority's financial statements.

Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, The objective of this Statement is to address issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other post employment benefits (OPEB) plans (that is, agent employers). The Authority is required to implement this Statement for the year ending June 30, 2012. Management has not yet completed its assessment of the impact of this GASB Statement on the Authority's financial statements.

Statement No. 59, *Financial Instruments Omnibus*, The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have identified in practice. The Authority is required to implement this Statement for the year ending June 30, 2011. Management has not yet completed its assessment of the impact of this GASB Statement on the Authority's financial statements.

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(18) CHANGE IN CLASSIFICATION

The proceeds from the State to make loans, bond issuances and the related principal and interest payments were incorrectly classified in the investing activities instead of noncapital financing activities in the June 30, 2009 statement of cash flows. As a result of this misclassification, the June 30, 2009 cash flows from investing activities in bond fund were understated by \$38,542,967 and the cash flows from noncapital financing activities were overstated by the same amount. Nonmajor funds cash flows from investing activities were also overstated by \$10,720,319 and cash flows from noncapital financing activities were understated by the same amount. The cash flows for the current year financial statements reflect the correct classification of these transactions.

Restricted cash and cash equivalents in the E.D.A. Title IX Restricted Revolving Loan Fund, Rural Development Revolving Loan Fund and Credit Enhancement Fund totaling \$1,970,270 that are parts of the Nonmajor funds opinion unit have been reclassified as current assets. In previous years, cash in these funds were classified as long-term assets.

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Combining Statement of Net Assets - Nonmajor Funds
June 30, 2010

Assets	Industrial Revenue Bond Insurance Fund	Credit Enhancement Fund	Illinois Agricultural Loan Guarantee Fund	Illinois Farmer Agribusiness Loan Guarantee Fund	IRBB Special Reserve Fund
Current assets:					
Cash and cash equivalents - unrestricted	\$ 11,658,038	\$ -	\$ -	\$ -	\$ 2,569,391
Restricted current assets					
Cash and cash equivalents	-	-	-	-	-
Securities lending collateral equity with Treasurer	-	-	3,574,387	2,751,285	-
Accrued interest receivable	-	-	-	-	-
Loans receivable	-	-	-	-	-
Allowance for doubtful accounts	-	-	-	-	-
Due from other funds	-	-	-	-	-
Receivables					
Loans receivable	-	-	-	-	23,777
Due from other funds	-	-	-	-	1,743
Interest and other	-	-	-	-	975
Total current assets	<u>11,658,038</u>	<u>-</u>	<u>3,574,387</u>	<u>2,751,285</u>	<u>2,595,886</u>
Noncurrent assets:					
Restricted noncurrent assets					
Cash and cash equivalents	-	625,750	9,928,105	7,641,852	-
Interest receivable	-	-	3,000	3,000	-
Guarantee payments receivable	-	-	170,902	652,650	-
Allowance for doubtful accounts	-	-	(170,902)	(652,650)	-
Loans receivable	-	-	-	-	-
Allowance for doubtful accounts	-	-	-	-	-
Investments in partnerships and companies	-	-	-	-	-
Loans receivable	-	-	-	-	285,525
Total noncurrent assets	<u>-</u>	<u>625,750</u>	<u>9,931,105</u>	<u>7,644,852</u>	<u>285,525</u>
Total assets	<u>11,658,038</u>	<u>625,750</u>	<u>13,505,492</u>	<u>10,396,137</u>	<u>2,881,411</u>
Liabilities					
Current liabilities:					
Obligation under securities lending of State Treasurer	-	-	3,574,387	2,751,285	-
Accrued interest payable	-	-	-	-	-
Due to primary government	-	-	-	-	-
Due to other funds short-term	-	-	-	-	-
Current portion of long-term debt	-	-	-	-	-
Total current liabilities	<u>-</u>	<u>-</u>	<u>3,574,387</u>	<u>2,751,285</u>	<u>-</u>
Noncurrent liabilities					
Noncurrent portion of long-term debt	-	-	-	-	-
Due to primary government	-	-	-	-	-
Total noncurrent liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>3,574,387</u>	<u>2,751,285</u>	<u>-</u>
Net Assets					
Restricted	-	625,750	9,931,105	7,644,852	-
Unrestricted	11,658,038	-	-	-	2,881,411
Total net assets	<u>\$ 11,658,038</u>	<u>\$ 625,750</u>	<u>\$ 9,931,105</u>	<u>\$ 7,644,852</u>	<u>\$ 2,881,411</u>

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June 30, 2010

Assets	E.D.A. Title IX Restricted Revolving Loan Fund	Rural Development Revolving Loan Fund	Employee Ownership Assistance Loan Fund	Illinois Housing Partnership Program
Current assets:				
Cash and cash equivalents - unrestricted	\$ -	\$ -	\$ -	1,826,170
Restricted current assets				
Cash and cash equivalents	749,300	1,846,720	-	-
Securities lending collateral equity with Treasurer	-	-	-	-
Accrued interest receivable	-	5,000	-	-
Loans receivable	91,484	120,424	-	-
Allowance for doubtful accounts	(91,484)	-	-	-
Due from other funds	-	564	-	-
Receivables				
Loans receivable	-	-	1,000,000	-
Due from other funds	-	-	-	-
Interest and other	-	-	-	-
Total current assets	<u>749,300</u>	<u>1,972,708</u>	<u>1,000,000</u>	<u>1,826,170</u>
Noncurrent assets:				
Restricted noncurrent assets				
Cash and cash equivalents	-	-	-	-
Interest receivable	-	-	-	-
Guarantee payments receivable	-	-	-	-
Allowance for doubtful accounts	-	-	-	-
Loans receivable	-	375,349	-	-
Allowance for doubtful accounts	-	(29,746)	-	-
Investments in partnerships and companies	-	-	-	-
Loans receivable	-	-	-	3,000,000
Total noncurrent assets	<u>-</u>	<u>345,603</u>	<u>-</u>	<u>3,000,000</u>
Total assets	<u>749,300</u>	<u>2,318,311</u>	<u>1,000,000</u>	<u>4,826,170</u>
Liabilities				
Current liabilities:				
Obligation under securities lending of State Treasurer	-	-	-	-
Accrued interest payable	-	3,301	-	-
Due to primary government	-	-	-	-
Due to other funds short-term	1,447	-	-	-
Current portion of long-term debt	-	57,073	-	-
Total current liabilities	<u>1,447</u>	<u>60,374</u>	<u>-</u>	<u>-</u>
Noncurrent liabilities				
Noncurrent portion of long-term debt	-	603,136	-	-
Due to primary government	-	-	-	-
Total noncurrent liabilities	<u>-</u>	<u>603,136</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>1,447</u>	<u>663,510</u>	<u>-</u>	<u>-</u>
Net Assets				
Restricted	747,853	1,654,801	-	-
Unrestricted	-	-	1,000,000	4,826,170
Total net assets	<u>\$ 747,853</u>	<u>\$ 1,654,801</u>	<u>\$ 1,000,000</u>	<u>\$ 4,826,170</u>

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Combining Statement of Net Assets - Nonmajor Funds
June 30, 2010

Assets	Fire Truck Revolving Loan Fund	Renewable Energy Development Fund	Ambulance Revolving Loan Fund	Total Nonmajor
Current assets:				
Cash and cash equivalents - unrestricted	\$ -	\$ -	\$ -	\$ 16,053,599
Restricted current assets				
Cash and cash equivalents	-	354,118	-	2,950,138
Securities lending collateral equity with Treasurer	-	-	-	6,325,672
Accrued interest receivable	-	196	-	5,196
Loans receivable	1,215,155	87,090	160,987	1,675,140
Allowance for doubtful accounts	-	-	-	(91,484)
Due from other funds	-	-	-	564
Receivables				
Loans receivable	-	-	-	1,023,777
Due from other funds	-	-	-	1,743
Interest and other	-	-	-	975
Total current assets	<u>1,215,155</u>	<u>441,404</u>	<u>160,987</u>	<u>27,945,320</u>
Noncurrent assets:				
Restricted noncurrent assets				
Cash and cash equivalents	-	-	-	18,195,707
Interest receivable	-	-	-	6,000
Guarantee payments receivable	-	-	-	823,552
Allowance for doubtful accounts	-	-	-	(823,552)
Loans receivable	17,514,980	1,668,555	832,213	20,391,097
Allowance for doubtful accounts	-	-	-	(29,746)
Investments in partnerships and companies				
Loans receivable	-	-	-	-
Total noncurrent assets	<u>17,514,980</u>	<u>1,668,555</u>	<u>832,213</u>	<u>41,848,583</u>
Total assets	<u>18,730,135</u>	<u>2,109,959</u>	<u>993,200</u>	<u>69,793,903</u>
Liabilities				
Current liabilities:				
Obligation under securities lending of State Treasurer	-	-	-	6,325,672
Accrued interest payable	-	-	-	3,301
Due to primary government	1,215,155	-	160,987	1,376,142
Due to other funds short-term	-	-	-	1,447
Current portion of long-term debt	-	-	-	57,073
Total current liabilities	<u>1,215,155</u>	<u>-</u>	<u>160,987</u>	<u>7,763,635</u>
Noncurrent liabilities				
Noncurrent portion of long-term debt	-	-	-	603,136
Due to primary government	17,514,980	-	832,213	18,347,193
Total noncurrent liabilities	<u>17,514,980</u>	<u>-</u>	<u>832,213</u>	<u>18,950,329</u>
Total liabilities	<u>18,730,135</u>	<u>-</u>	<u>993,200</u>	<u>26,713,964</u>
Net Assets				
Restricted	-	2,109,959	-	22,714,320
Unrestricted	-	-	-	20,365,619
Total net assets	<u>\$ -</u>	<u>\$ 2,109,959</u>	<u>\$ -</u>	<u>\$ 43,079,939</u>

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Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets - Nonmajor Funds
For the Year Ended June 30, 2010

	Industrial Revenue Bond Insurance Fund	Credit Enhancement Fund	Illinois Agricultural Loan Guarantee Fund	Illinois Farmer Agribusiness Loan Guarantee Fund	IRBB Special Reserve Fund
Operating revenues					
Interest on loans	\$ -	\$ -	\$ -	\$ -	\$ 33,500
Application fees	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total operating revenues	-	-	-	-	33,500
Operating expenses					
Professional services	-	472	-	-	-
Interest expense	-	-	-	-	-
Total operating expenses	-	472	-	-	-
Operating income (loss)	-	(472)	-	-	33,500
Nonoperating revenues:					
Interest and investment income	20,764	-	64,408	47,915	2,735
Total nonoperating income	20,764	-	64,408	47,915	2,735
Capital contributions and transfers					
Transfers to other funds	-	(7,500)	-	-	(70,000)
Total capital contributions and transfers	-	(7,500)	-	-	(70,000)
Change in net assets	20,764	(7,972)	64,408	47,915	(33,765)
Net assets - beginning of year	11,637,274	633,722	9,866,697	7,596,937	2,915,176
Net assets - end of year	<u>\$ 11,658,038</u>	<u>\$ 625,750</u>	<u>\$ 9,931,105</u>	<u>\$ 7,644,852</u>	<u>\$ 2,881,411</u>

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(A Component Unit of the State of Illinois)
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets - Nonmajor Funds
For the Year Ended June 30, 2010

	E.D.A. Title IX Restricted Revolving Loan Fund	Rural Development Revolving Loan Fund	Employee Ownership Assistance Loan Fund	Illinois Housing Partnership Program
Operating revenues				
Interest on loans	\$ -	\$ 30,537	\$ -	\$ -
Application fees	-	-	-	-
Miscellaneous	-	7,320	-	-
Total operating revenues	-	37,857	-	-
Operating expenses				
Professional services	20	-	-	-
Interest expense	-	6,882	-	-
Total operating expenses	20	6,882	-	-
Operating income (loss)	(20)	30,975	-	-
Nonoperating revenues:				
Interest and investment income	569	2,834	-	2,376
Total nonoperating income	569	2,834	-	2,376
Capital contributions and transfers				
Transfers to other funds	-	-	-	-
Total capital contributions and transfers	-	-	-	-
Change in net assets	549	33,809	-	2,376
Net assets - beginning of year	747,304	1,620,992	1,000,000	4,823,794
Net assets - end of year	<u>\$ 747,853</u>	<u>\$ 1,654,801</u>	<u>\$ 1,000,000</u>	<u>\$ 4,826,170</u>

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
(A Component Unit of the State of Illinois)
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets - Nonmajor Funds
For the Year Ended June 30, 2010

	Fire Truck Revolving Loan Fund	Renewable Energy Development Fund	Ambulance Revolving Loan Fund	Total Nonmajor
Operating revenues				
Interest on loans	\$ -	\$ 36,040	\$ -	\$ 100,077
Application fees	1,000	-	-	1,000
Miscellaneous	-	-	-	7,320
Total operating revenues	<u>1,000</u>	<u>36,040</u>	<u>-</u>	<u>108,397</u>
Operating expenses				
Professional services	-	-	-	492
Interest expense	-	-	-	6,882
Total operating expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,374</u>
Operating income (loss)	<u>1,000</u>	<u>36,040</u>	<u>-</u>	<u>101,023</u>
Nonoperating revenues:				
Interest and investment income	-	-	-	141,601
Total nonoperating income	<u>-</u>	<u>-</u>	<u>-</u>	<u>141,601</u>
Capital contributions and transfers				
Transfers to other funds	(1,000)	-	-	(78,500)
Total capital contributions and transfers	<u>(1,000)</u>	<u>-</u>	<u>-</u>	<u>(78,500)</u>
Change in net assets	-	36,040	-	164,124
Net assets - beginning of year	-	2,073,919	-	42,915,815
Net assets - end of year	<u>\$ -</u>	<u>\$ 2,109,959</u>	<u>\$ -</u>	<u>\$ 43,079,939</u>

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
(A Component Unit of the State of Illinois)
Combining Statement of Cash Flows - Nonmajor Funds
For the Year Ended June 30, 2010

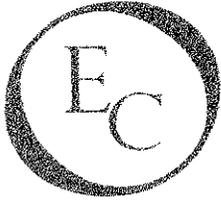
	Industrial Revenue Bond Insurance Fund	Credit Enhancement Fund	Illinois Agricultural Loan Guarantee Fund	Illinois Farmer Agribusiness Loan Guarantee Fund	IRBB Special Reserve Fund
Cash flows from operating activities:					
Cash received for fees and other	\$ -	\$ -	\$ -	\$ -	\$ -
Cash payments to suppliers for goods and services	-	(472)	-	-	-
Net cash provided by (used in) operating activities	-	(472)	-	-	-
Cash flows from noncapital financing activities:					
Principal paid to State	-	-	-	-	-
Proceeds from State of Illinois to make loans	-	-	-	-	-
Bonds and notes principal payments	-	-	-	-	-
Interest payments	-	-	-	-	-
Due from other funds	-	-	-	-	(1,743)
Due to other funds	-	-	-	-	12,354
Transfers to other funds	-	(7,500)	-	-	(70,000)
Net cash used in noncapital financing activities	-	(7,500)	-	-	(59,389)
Cash flows from investing activities:					
Cash received on loan receivables and guarantees	-	-	-	-	1,473,628
Cash payments for loan receivables and guarantees	-	-	-	-	(1,450,000)
Cash received for interest on loans	-	-	-	-	33,570
Interest and dividends on investments	20,764	-	64,408	48,915	2,735
Net cash provided by investing activities	20,764	-	64,408	48,915	59,933
Net increase (decrease) in cash and cash equivalents	20,764	(7,972)	64,408	48,915	544
Cash and cash equivalents at beginning of year	11,637,274	633,722	9,863,697	7,592,937	2,568,847
Cash and cash equivalents at end of year	<u>\$11,658,038</u>	<u>\$ 625,750</u>	<u>\$9,928,105</u>	<u>\$ 7,641,852</u>	<u>\$2,569,391</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:					
Operating income (loss)	\$ -	\$ (472)	\$ -	\$ -	\$ 33,500
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Interest on loans	-	-	-	-	(33,500)
Interest expense	-	-	-	-	-
Loan loss provision	-	-	-	-	-
Net cash provided by (used in) operating activities	<u>\$ -</u>	<u>\$ (472)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
(A Component Unit of the State of Illinois)
Combining Statement of Cash Flows - Nonmajor Funds
For the Year Ended June 30, 2010

	E.D.A. Title IX Restricted Revolving Loan Fund	Rural Development Revolving Loan Fund	Employee Ownership Assistance Loan Fund	Illinois Housing Partnership Program
Cash flows from operating activities:				
Cash received for fees and other	\$ -	\$ -	\$ -	\$ -
Cash payments to suppliers for goods and services	(20)	-	-	-
Net cash provided by (used in) operating activities	(20)	-	-	-
Cash flows from noncapital financing activities:				
Principal paid to State	-	-	-	-
Proceeds from State of Illinois to make loans	-	-	-	-
Bonds and notes principal payments	-	(56,509)	-	-
Interest payments	-	(7,164)	-	-
Due from other funds	(5,226)	(9,004)	-	-
Due to other funds	1,447	7,948	-	-
Transfers to other funds	-	-	-	-
Net cash used in noncapital financing activities	(3,779)	(64,729)	-	-
Cash flows from investing activities:				
Cash received on loan receivables and guarantees	-	122,004	-	-
Cash payments for loan receivables and guarantees	-	-	-	-
Cash received for interest on loans	-	31,085	-	-
Interest and dividends on investments	569	2,834	-	2,376
Net cash provided by investing activities	569	155,923	-	2,376
Net increase (decrease) in cash and cash equivalents	(3,230)	91,194	-	2,376
Cash and cash equivalents at beginning of year	752,530	1,755,526	-	1,823,794
Cash and cash equivalents at end of year	\$ 749,300	\$ 1,846,720	\$ -	\$ 1,826,170
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ (20)	\$ 30,975	\$ -	\$ -
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Interest on loans	-	(30,537)	-	-
Interest expense	-	6,882	-	-
Loan loss provision	-	(7,320)	-	-
Net cash provided by (used in) operating activities	\$ (20)	\$ -	\$ -	\$ -

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
(A Component Unit of the State of Illinois)
Combining Statement of Cash Flows - Nonmajor Funds
For the Year Ended June 30, 2010

	Fire Truck Revolving Loan Fund	Renewable Energy Development Fund	Ambulance Revolving Loan Fund	Total Nonmajor
Cash flows from operating activities:				
Cash received for fees and other	\$ 1,000	\$ -	\$ -	\$ 1,000
Cash payments to suppliers for goods and services	-	-	-	(492)
Net cash provided by (used in) operating activities	<u>1,000</u>	<u>-</u>	<u>-</u>	<u>508</u>
Cash flows from noncapital financing activities:				
Principal paid to State	(778,188)	-	-	(778,188)
Proceeds from State of Illinois to make loans	250,000	-	-	250,000
Bonds and notes principal payments	-	-	-	(56,509)
Interest payments	-	-	-	(7,164)
Due from other funds	-	-	-	(15,973)
Due to other funds	-	-	-	21,749
Transfers to other funds	(1,000)	-	-	(78,500)
Net cash used in noncapital financing activities	<u>(529,188)</u>	<u>-</u>	<u>-</u>	<u>(664,585)</u>
Cash flows from investing activities:				
Cash received on loan receivables and guarantees	778,188	85,366	-	2,459,186
Cash payments for loan receivables and guarantees	(250,000)	-	-	(1,700,000)
Cash received for interest on loans	-	36,045	-	100,700
Interest and dividends on investments	-	-	-	142,601
Net cash provided by investing activities	<u>528,188</u>	<u>121,411</u>	<u>-</u>	<u>1,002,487</u>
Net increase (decrease) in cash and cash equivalents	-	121,411	-	338,410
Cash and cash equivalents at beginning of year	-	232,707	-	36,861,034
Cash and cash equivalents at end of year	<u>\$ -</u>	<u>\$ 354,118</u>	<u>\$ -</u>	<u>\$ 37,199,444</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ 1,000	\$ 36,040	\$ -	\$ 101,023
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Interest on loans	-	(36,040)	-	(100,077)
Interest expense	-	-	-	6,882
Loan loss provision	-	-	-	(7,320)
Net cash provided by (used in) operating activities	<u>\$ 1,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 508</u>



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

Independent Auditors' Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With *Government Auditing Standards*

Honorable William G. Holland
Auditor General
State of Illinois

and

Ms. Gila Bronner
Honorable Chairman of the Audit Committee
of the Board of Directors
Illinois Finance Authority

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the business-type activities, each major fund and the aggregate remaining fund information of the State of Illinois, Illinois Finance Authority, a component unit of the State of Illinois, as of and for the year ended June 30, 2010, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated May 5, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements and not for the purpose of expressing an opinion on the effectiveness of the State of Illinois, Illinois Finance Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 the internal control over financial reporting that might 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 finding we identified certain deficiencies 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 finding 10-1 in the accompanying schedule of finding to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Illinois, Illinois Finance Authority'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of finding as item 10-1.

The State of Illinois, Illinois Finance Authority's response to the finding identified in our audit is described in the accompanying schedule of finding. We did not audit the State of Illinois, Illinois Finance Authority's response and, accordingly, we express no opinion 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 State of Illinois, Illinois Finance Authority's management, the State of Illinois, Illinois Finance Authority's Board of Directors, and federal awarding agencies and pass-through entities 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
May 5, 2011

**STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
(A Component Unit of the State of Illinois)
SCHEDULE OF FINDING
June 30, 2010**

CURRENT FINDING - *GOVERNMENT AUDITING STANDARDS*

10-1. **Finding** (Noncompliance with the investment requirements of the Bond Indenture)

The Illinois Finance Authority (Authority) did not ensure that its investments of bond proceeds are in accordance with the Bond Indenture.

In 2002 and 2004, the Authority issued series of revenue bonds designated as the State of Illinois Revolving Fund Revenue Bonds. Article IV, Section 4.9 of the Bond Indenture requires that no more than one-third or 33% of the moneys relating to the bonds are invested in short term obligations of corporations organized in the United States of America with assets exceeding \$500,000,000.

During our testing, we noted monies relating to the issuance of the series 2002 and 2004 bonds were invested in a short term obligation of a corporation that exceeded the cap of 33% per Bond Indenture. As of June 30, 2010, the fair market value of the investment in short term obligation was \$43,896,500 representing 45% of the total investment balance of bond funds of \$97,970,720. According to the terms of the bond indenture, the Authority had 90 days to cure the default that resulted from its noncompliance. Auditors confirmed with the bond trustee that the noncompliance was cured within 90 days.

According to Authority management, the Trustee is responsible for investing bond funds. The noncompliance was due to oversight of the bond Trustee.

Failure to monitor compliance of trust indenture will expose the Authority's investment to higher concentration of credit risk. Concentration of credit risk is the risk of loss attributed to the concentration of an entity's investment in a single issuer. (Finding Code No. 10-1)

Recommendation

We recommend Authority management review its investment portfolio on a regular basis and ensure compliance with Bond Indenture requirements.

Authority Response

The Authority accepts the Auditor's recommendation. This is a joint venture with the Illinois Environmental Protection Agency and the Trustee; the Authority will work closely with both to ensure compliance with the bond indenture requirements. The Authority is establishing procedures to monitor the Trustee who is responsible for investing bond funds.

**STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
(A Component Unit of the State of Illinois)
June 30, 2010**

PRIOR FINDING NOT REPEATED - *GOVERNMENT AUDITING STANDARDS*

A. Finding (Valuation of Venture Capital Investments)

The Illinois Finance Authority (Authority) has not had an independent valuation of its venture capital investments since fiscal year 2006. The Authority maintained a portfolio of the venture capital investments which are not readily marketable investments. The last time an independent valuation of venture capital investments was performed in fiscal year 2006. (Finding Code No. 09-1)

Status: Implemented

During the current year, the Authority engaged an independent valuation professional to value their venture capital investments and updated its records based on the report from the independent valuation professional.