STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
COMPLIANCE EXAMINATION

(In Accordance with the Single Audit Act
and OMB Circular A-133)
For the Year Ended June 30, 2012

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

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

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
COMPLIANCE EXAMINATION
(In Accordance with the Single Audit Act and OMB Circular A-133)
For the Year Ended June 30, 2012

TABLE OF CONTENTS

Financial Statement Report

The Illinois Finance Authority's financial statement report for the year ended June 30, 2012, which includes the Independent Auditors' Report, management discussion and analysis, basic financial statements and notes, supplementary information, and the 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* has been issued separately.

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
COMPLIANCE EXAMINATION
(In Accordance with the Single Audit Act and OMB Circular A-133)
For the Year Ended June 30, 2012

TABLE OF CONTENTS (continued)

TABLE OF CONTENTS (continued)

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
COMPLIANCE EXAMINATION
For the Year Ended June 30, 2012

AGENCY OFFICIALS

Executive Director	Mr. Christopher Meister
Acting Chief Financial Officer	Mr. Scott Bailey (01/28/13 - current)
Assistant Chief Financial Officer	Ms. Ximena Granda (07/01/11 - 01/31/13)
Assistant Treasurer	Ms. Joy Kuhn (07/01/11 - 01/22/13)
General Counsel	Mr. Brendan Cournane (07/01/11 - 12/09/11)
Acting General Counsel	Ms. Pamela Lenane (12/10/11 - current)

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

Chairman	William Brandt, Jr.
Member	Dr. William Barclay
Member	Terrence O'Brien
Member	Michael Goetz
Member	Bradley Zeller
Member	Roger Poole
Member	Edward Leonard Sr.
Member	Norman Gold
Member	James Fuentes
Member	Barrett Pedersen
Member	Gila Bronner
Member	Heather Parish
Member	John Durburg (07/01/11 - 03/14/12)
	Vacant (03/15/12 - current)
Member	Vacant (07/01/11 - 10/04/12)
	Lerry Knox (10/05/12 - current)
Member	Vacant (07/01/11 - 10/04/12)
	Mordecai Tessler (10/05/12 - current)

Agency offices are located at:

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

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

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

Peoria Office
100 South West Water Street
Peoria, Illinois 61602

IFA
ILLINOIS FINANCE AUTHORITY

180 North Stetson Ave.
Suite 2555
Chicago, IL 60601
312-651-1300
312-651-1350 fax
www.il-fa.com

MANAGEMENT ASSERTION LETTER

March 11, 2013

E.C. Ortiz & Co., LLP
Certified Public Accountants
333 South Des Plaines Street, Suite 2-N
Chicago, Illinois 60661

Ladies and Gentlemen:

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

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

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

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

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

Mt. Vernon | 2929 Broadway Street, Ste. 7B, Mt. Vernon IL 62864 | 618.244.2424 | 618.244.2433 fax
Peoria | 100 S. W. Water Street, Peoria, IL 61602 | 309.495.5959 | 309.676.7534 fax
Springfield | 500 E. Monroe St., Third Floor, Springfield, IL 62701 | 217.782.5792 | 217.782.3989 fax
TTY: 1.800.526.0844 | VOICE: 1.800.526.0857

ILLINOIS FINANCE AUTHORITY

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

Very truly yours,

ILLINOIS FINANCE AUTHORITY

Christopher Meister, Executive Director

Scott Bailey, Acting Chief Financial Officer

Pamela Lenane, Acting General Counsel

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
COMPLIANCE REPORT
For the Year Ended June 30, 2012

SUMMARY

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

ACCOUNTANTS' REPORT

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

SUMMARY OF FINDINGS

Number of	Current Report	Prior Report
Findings	11	13
Repeated findings	6	5
Prior recommendations implemented or not repeated	7	3

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Item No.	Page	Description	Finding Type
		FINDINGS (*GOVERNMENT AUDITING STANDARDS*)	
12-1	19	Inadequate Controls over Monitoring Covenant Compliance	Significant deficiency
12-2	21	Inadequate Controls over Financial Reporting	Significant deficiency
		FINDINGS AND QUESTIONED COSTS (FEDERAL COMPLIANCE)	
12-3	23	Weaknesses in the Intermediary Relending Program	Noncompliance and Significant deficiency
12-4	26	Weaknesses in the Economic Adjustment Assistance Program	Noncompliance and Significant deficiency

SUMMARY (continued)

Item No.	Page	Description	Finding Type
		FINDINGS (STATE COMPLIANCE)	
12-5	29	Inadequate Controls over Monitoring Covenant Compliance	Material Noncompliance and Material Weakness
12-6	32	Unable to Substantiate Compliance with the Illinois Municipal Code	Noncompliance and Significant deficiency
12-7	35	Delinquent Reporting of Bond Activity	Noncompliance and Significant deficiency
12-8	37	Inadequate Control over Travel Expenses	Noncompliance and Significant deficiency
12-9	41	Nonpayment of Shared State Employee Services	Noncompliance and Significant deficiency
12-10	43	Noncompliance with Contracting Procedures	Noncompliance and Significant deficiency
12-11	45	Inadequate Controls over Personal Services	Noncompliance and Significant deficiency

In addition, the following findings which are reported as current findings relating to *Governmental Auditing Standards* also meet the reporting requirements for State Compliance.

12-1	19	Inadequate Controls over Monitoring Covenant Compliance	Material Noncompliance and Material Weakness
12-2	21	Inadequate Controls over Financial Reporting	Noncompliance Significant deficiency

SUMMARY (continued)

PRIOR FINDINGS NOT REPEATED

Item No.	Page	Description
A	47	Failure to Monitor Outstanding Bonded Indebtedness of the Illinois Farm Development Bonds
B	47	Noncompliance with the Illinois State Officials and Employee Ethics Act
C	47	Noncompliance with the Venture Capital Investment Program
D	48	Internal Auditing Program not Implemented
E	48	Noncompliance with Laws and Regulations
F	49	Failure to File Report in Implementing the American Recovery and Reinvestment Act
G	49	Vacancies in the Membership of the Illinois Finance Authority

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with the Illinois Finance Authority personnel at an exit conference on March 7, 2013. Attending were:

Illinois Finance Authority

Christopher Meister, Executive Director
Scott Bailey, Acting Chief Financial Officer
Rich Frampton, Vice-President Business & Industry, Education, and Non-Profit
Pamela Lenane, Acting General Counsel
Sohair Omar, Policy and Operations Analyst

Audit Committee

Gila Bronner, Chairwoman of the Audit Committee

Office of the Auditor General

Daniel J. Nugent, CPA, Audit Manager

E.C. Ortiz & Co., LLP

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

Responses to the recommendations were provided by Scott Bailey in a letter dated March 11, 2013.

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

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

Honorable William G. Holland
Auditor General
State of Illinois

and

Ms. Gila Bronner
Chairwoman of the Audit Committee
Illinois Finance Authority

Compliance

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

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

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

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

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

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

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

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

As described in finding 12-5 in the accompanying schedule of findings and questioned costs, the State of Illinois, Illinois Finance Authority did not comply with requirements regarding the use of public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such use. As described in finding 12-1 in the accompanying schedule of findings and question costs, the State of Illinois, Illinois Finance Authority did not comply with the requirements regarding applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations. Compliance with such requirements is necessary, in our opinion, for the State of Illinois, Illinois Finance Authority to comply with the requirements listed in the first paragraph of this report.

In our opinion, except for the noncompliance described in the preceding paragraph, the State of Illinois, Illinois Finance Authority complied, in all material respects, with the compliance requirements listed in the first paragraph of this report during the year ended June 30, 2012. However, the results of our procedures disclosed instances of noncompliance with the requirements, which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of findings and questioned costs as items 12-2, 12-6, 12-7, 12-8, 12-9, 12-10, and 12-11.

Internal Control

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

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

A *deficiency in an entity's internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with the requirements listed in the first paragraph of this report on a timely basis. A *material weakness in an entity's internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a requirement listed in the first paragraph of this report will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance as described in the accompanying schedule of findings and questioned costs as items 12-1 and 12-5 to be material weaknesses.

A *significant deficiency in an entity's internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 12-2, 12-6, 12-7, 12-8, 12-9, 12-10 and 12-11 to be significant deficiencies.

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

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

Supplementary Information for State Compliance Purposes

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 as of and for the year ended June 30, 2012, and have issued our report thereon dated December 7, 2012, which contained unqualified opinions on those financial statements. 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. We have not performed any procedures with respect to the audited financial statements subsequent to December 7, 2012. The accompanying supplementary information for the year ended June 30, 2012 in Schedules 1 through 17 is presented for purposes of additional analysis and is not a required part of the basic financial statements of the State of Illinois, Illinois Finance Authority. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The accompanying supplementary information for the year ended June 30, 2012 in Schedules 1 through 17 has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information for the year ended June 30, 2012 in Schedules 1 through 17 is fairly stated in all material respects in relation to the basic financial statements as a whole for the year ended June 30, 2012.

We have also previously audited, in accordance with auditing standards generally accepted in the United States of America, the State of Illinois, Illinois Finance Authority's basic financial statements for the year ended June 30, 2011 and June 30, 2010 (not presented herein), and have issued our reports thereon dated March 9, 2012 and May 5, 2011, respectively, which contained unqualified opinions on the respective financial statements of the business-type activities, each major fund, and the aggregate remaining fund information. The accompanying supplementary information for the years ended June 30, 2011 and June 30, 2010 in Schedules 3, 5, 10, 11, 12, 13, 14, and 15 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the June 30, 2011 and June 30, 2010 financial statements. The accompanying supplementary information for the years ended June 30, 2011 and June 30, 2010 in Schedules 3, 5, 10, 11, 12, 13, 14, and 15 has been subjected to the auditing procedures applied in the audit of the June 30, 2011 and June 30, 2010 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those statements or to those financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information for the years ended June 30, 2011 and June 30, 2010 in Schedules 3, 5, 10, 11, 12, 13, 14, and 15 is fairly stated in all material respects in relation to the basic financial statements as a whole from which it has been derived.

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

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

March 11, 2013 except for our report on the Supplementary Information for State Compliance Purposes paragraph, as to which the date is December 7, 2012.

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

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Honorable William G. Holland
Auditor General
State of Illinois

and

Ms. Gila Bronner
Chairwoman of the Audit Committee
Illinois Finance Authority

As Special Assistant Auditors for the Auditor General, we have audited 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, 2012, which collectively comprise the State of Illinois, Illinois Finance Authority's basic financial statements and have issued our report thereon dated December 7, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the State of Illinois, Illinois Finance Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the State of Illinois, Illinois Finance 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, but 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 State of Illinois, Illinois Finance Authority's internal control over financial reporting.

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings as items 12-1 and 12-2, that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 findings as items 12-1 and 12-2.

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

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the 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
December 7, 2012

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

Independent Auditors' Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program, on Internal Control Over Compliance, and on the Schedule of Expenditures of Federal Awards in Accordance with OMB Circular A-133

Honorable William G. Holland
Auditor General
State of Illinois

and

Ms. Gila Bronner
Chairwoman of the Audit Committee
Illinois Finance Authority

Compliance

We have audited the State of Illinois, Illinois Finance Authority's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the State of Illinois, Illinois Finance Authority's major federal programs for the year ended June 30, 2012. The State of Illinois, Illinois Finance Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the State of Illinois, Illinois Finance Authority's management. Our responsibility is to express an opinion on the State of Illinois, Illinois Finance Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State of Illinois, Illinois Finance Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the State of Illinois, Illinois Finance Authority's compliance with those requirements.

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

In our opinion, the State of Illinois, Illinois Finance Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 12-3 and 12-4.

Internal Control Over Compliance

Management of the State of Illinois, Illinois Finance Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the State of Illinois, Illinois Finance Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State of Illinois, Illinois Finance Authority's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 12-3 and 12-4. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Schedule of Expenditures of Federal Awards

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 as of and for the year ended June 30, 2012, and have issued our report thereon dated December 7, 2012, which contained unqualified opinions on those financial statements. Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise the State of Illinois, Illinois Finance Authority's basic financial statements. We have not performed any procedures with respect to the audited financial statements subsequent to December 7, 2012. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain other additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the 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
March 11, 2013 except for our report on the Schedule of Expenditures of Federal Awards, for which the date is December 7, 2012.

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2012

Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
• Material weakness(es) identified?	____ Yes __X__ None Reported
• Significant deficiency(ies) identified?	__X__ Yes ____ None Reported
• Noncompliance material to financial statements noted?	____ Yes __X__ No

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	____ Yes __X__ None Reported
• Significant deficiency(ies)?	__X__ Yes ____ None Reported
Type of auditor's report issued on compliance for major programs	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	__X__ Yes ____ No

Identification of major programs:

CFDA Numbers	Name of Federal Programs
10.767	Intermediary Relending Program
11.307	Economic Adjustment Assistance

Dollar threshold used to distinguish between type A and type B programs:	$ 300,000
Auditee qualified as low-risk auditee?	____ Yes __X__ No

CURRENT FINDINGS - *GOVERNMENT AUDITING STANDARDS*

12-1. **FINDING** (Inadequate Controls over Monitoring Covenant Compliance)

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

These bonds or loan agreements include:

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

During testing, the auditors noted the Authority could not provide documentation filed by borrowers or present evidence of the Authority's monitoring of borrower compliance with 16 of 39 (41%) significant covenants tested, affecting 22 loan agreements or revenue bonds reported on the face of the Authority's basic financial statements. The noted significant covenants include certain continuing disclosure requirements, such as providing financial reports, ratio calculations, compliance certifications, and insurance coverage documentation; however, the noted significant covenants did not include monitoring of actual principal and interest payments required under the tested bond or loan agreements. According to the Authority's management, the Authority has not implemented an organized records management system capable of identifying where the specific records requested are retained within the Authority's files.

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

CURRENT FINDINGS - *GOVERNMENT AUDITING STANDARDS*

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

RECOMMENDATION

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

AUTHORITY RESPONSE

We accept the Auditor's recommendation. As stated above none of the instances of missing documentation dealt with the actual payment of principal or interest on the bonds and are mainly administrative covenants. At the time of issuance, the Authority treated these bonds as conduit debt and they were not reported on the Authority's Statement of Net Assets. As a result, the Authority did not establish appropriate documentation and covenant compliance monitoring procedures when these bonds were originally issued.

The Authority recognizes the importance of covenant compliance and is in the process of devoting resources to establish a more effective documentation system for posting receipt of required bond documents and monitoring of covenant compliance.

CURRENT FINDINGS - *GOVERNMENT AUDITING STANDARDS*

12-2. **FINDING** (Inadequate Controls over Financial Reporting)

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

During testing, the auditors noted the following:

- The Authority did not develop a basis or prepare any calculations for the estimated arbitrage liability accrual of $1,000,030 within the debt service fund of the State of Illinois Revolving Fund, Series 2004 (Clean Water) issuance under the Internal Revenue Service's Publication 4079, *Tax Exempt Governmental Bonds Compliance Guide* (9/2005). The auditors analyzed the accrual and determined the accrual did not materially misstate the Authority's financial statements.

  The Authority's *Policies and Procedures Manual*, Procedure 60.30.001, requires accounting estimates "be reasonable and based on supporting documentation." Further, the Authority's management is responsible under generally accepted accounting principles for establishing a process for preparing reasonable accounting estimates based upon an accumulation of relevant, sufficient, and reliable data.

  Authority management stated the Authority recorded the accrual based upon a conversation between the Authority, the borrower, bond counsel, and the bond trustee concerning the potential for a higher arbitrage tax liability.

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

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

CURRENT FINDINGS - *GOVERNMENT AUDITING STANDARDS*

Authority management stated the interest for investments was not accrued due to staff oversight.

Failure to document the calculation of estimated arbitrage liability based upon an accumulation of relevant, sufficient, and reliable data and properly record interest accruals reduces the reliability of Statewide financial reporting and increases the risk of material misstatement within the Authority's financial statements. (Finding Code No. 12-2)

RECOMMENDATION

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

AUTHORITY RESPONSE

We accept the Auditor's recommendation. The Authority accrued the arbitrage rebate liability as required by applicable tax law. At the time of issuance, the Authority treated these bonds as conduit debt and they were not reported on the Authority's Statement of Net Assets. Upon the issuance of these bonds, the Authority, Illinois Environmental Protection Agency (IEPA), and the Governor's Office of Management and Budget (GOMB) entered into an Intergovernmental Agreement defining the responsibilities of each of the parties in administering this loan program.

As part of an anticipated bond issue tentatively planned for 2013 under the joint IEPA and IFA program, the Authority is negotiating a new intergovernmental agreement with the IEPA and GOMB. The new agreement will redefine and reallocate the duties of each of the parties.

In the future, the Authority will properly record accruals and ensure all accruals are properly documented consistent with the Authority's policies and procedures.

CURRENT FINDINGS - FEDERAL COMPLIANCE

12-3. **FINDING** (Weaknesses in the Intermediary Relending Program)

Federal Agency: United States Department of Agriculture (USDA)
Rural Business-Cooperative Service (Rural Development)

Program Name: Intermediary Relending Program (IRP)

CFDA #: 10.767

Questioned Costs: None

The Illinois Finance Authority (Authority) did not comply with certain monitoring and reporting requirements of the USDA's IRP.

Under the IRP, the Authority received a loan on December 14, 1990 for $1,500,000 from the USDA to act as the USDA's intermediary to provide loans to the Authority's borrowers (ultimate recipients) to fund development projects, business expansion, and the creation and retention of jobs. At June 30, 2012, the Authority's outstanding loan balance owed to the USDA totaled $545,493.

During testing of the IRP, the auditors noted the following:

- The Authority did not request or obtain an annual certification of management adherence to employment practices covenants from ultimate recipients. At June 30, 2012, the Authority had three outstanding loans, net of the allowance for doubtful accounts, totaling $249,164. The Authority entered into these loan agreements between October 2006 and January 2008.

  The Code of Federal Regulations (7 CFR § 4274.338(b)(6)) requires the Authority comply with the work plan approved by the USDA so long as any portion of the intermediary's loan from the USDA remains outstanding. The *Illinois Intermediary Relending Program Work Plan* (page 3), requires the Authority service loans by requiring all ultimate recipients submit an annual certification of management adherence to employment practices.

  Authority management stated the Authority lacks sufficient guidance on what constitutes a certification of management adherence to employment practices. Further, the Authority's management has contacted the USDA; however, the

CURRENT FINDINGS - FEDERAL COMPLIANCE

USDA was unable to provide any additional information on what matters should be addressed in the annual certification of management adherence to employment practices.

- One of two (50%) semi-annual Report of IRP/RDLF Lending Activity (RD 1951-4) forms tested did not show evidence of an independent review prior to the report's submission to the USDA.

  The Code of Federal Regulations (7 CFR § 3016.20(b)(3)) requires the Authority establish and maintain effective control and accountability for federal resources and ensure federal resources are used solely for authorized purposes. Good internal control includes an independent review of a financial report prior to the report's submission to the federal government.

  Authority management stated the independent review was not performed due to other competing work priorities taking precedence over the independent review.

Failure to ensure the ultimate recipients comply with all of the program requirements may disqualify the Authority from making loans and administering federal relending programs in the future. Further, failure to have an independent review of a report could result in management or employees not preventing, detecting, or correcting reporting errors on a timely basis. (Finding Code Nos. 12-3, 11-1, 10-2)

RECOMMENDATION

We recommend the Authority implement controls to have ultimate recipients complete an annual certification of management adherence to employment practices, or seek an amendment to the *Illinois Intermediary Relending Program Work Plan.* Further, the Authority should ensure each federal report undergoes an independent review by appropriate personnel prior to the Authority filing the report.

AUTHORITY RESPONSE

The Authority accepts the recommendation and will continue to work with USDA to revitalize the program and utilize the remaining program funds. At the same time, a cost-benefit analysis will be performed to ascertain whether the program is a good investment for the State of Illinois. To maximize the effectiveness of all the Authority programs, management is reviewing the viability of inactive legacy programs originating from its

CURRENT FINDINGS - FEDERAL COMPLIANCE

seven predecessor agencies and determining whether any of these programs should be terminated.

Given the long term nature of the Authority bond and loan programs, compliance must be established and maintained over an extended period of time. To ensure compliance on all the Authority programs, the agency will be hiring a compliance manager and establishing a formal compliance function. The compliance program will ensure that compliance responsibilities are consistently fulfilled and remain in effect throughout the life of each bond or loan program.

CURRENT FINDINGS - FEDERAL COMPLIANCE

12-4. **FINDING** (Weaknesses in the Economic Adjustment Assistance Program)

Federal Agency: United States Department of Commerce (USDoC)
Economic Development Administration

Federal Program: Economic Adjustment Assistance Program (EAAP)

CFDA #: 11.307

Questioned Costs: None

The Illinois Finance Authority (Authority) did not comply with certain monitoring and reporting requirements of the USDoC's EAAP.

Under the EAAP, the Authority received a grant from USDoC through the Department of Commerce and Economic Opportunity (DCEO). The Authority used this grant to establish the Title IX Revolving Loan Fund (RLF) to provide low-cost supplemental financing to manufacturing companies located in areas declared eligible for economic adjustment assistance.

During testing of the EAAP, the auditors noted the following:

- The EAAP has been inactive since 1998 and the Authority did not meet the 75% capitalization utilization requirements of the EAAP during Fiscal Year 2012. In March 2002, the USDoC sequestered the excess cash within the RLF due to the Authority's continued noncompliance with the capital utilization requirement.

  The Code of Federal Regulations (13 CFR § 307.16(c)) requires the Authority manage their repayment and lending schedules to ensure 75% of EAAP capital is loaned or committed.

  Authority management stated the Authority, working with the DCEO, pursued negotiations with the USDoC to revitalize the EAAP. However, these negotiations were unsuccessful and the Authority discontinued the EAAP by returning the remaining federal portion of grant money, totaling $561,795, to the DCEO on June 29, 2012.

CURRENT FINDINGS - FEDERAL COMPLIANCE

- For four of four (100%) quarters tested, the Authority did not remit the federal government's portion of interest on sequestered cash, totaling $154, in a timely manner. The auditors noted the interest remittances occurred between four to 137 days late.

  The Code of Federal Regulations (13 CFR § 307.16(c)(ii)(2)(i)) requires the portion of interest earned from an interest-bearing account attributable to the federal government after the Authority failed to maintain the EAAP's capital utilization requirements for two years shall be remitted to the U.S. Treasury. In addition, the Revolving Loan Fund Financial Assistance Award Standard Terms and Conditions (Part II, Section E(3)) requires the Authority remit the federal portion of interest on sequestered funds within 30 days of the conclusion of a calendar-year quarter.

  Authority management stated the Authority deemed accruing interest and only remitting the amount due when the accrued interest reached a reasonable amount to justify the cost of remittance was appropriate.

- One of two (50%) semi-annual RLF Report Form (ED-209) reports tested did not show evidence of an independent review prior to the report's submission to the USDoC.

  The Code of Federal Regulations (13 CFR § 307.21(a)(2)) requires the Authority establish and maintain effective control and accountability for EAAP grant funds and assets, or the USDoC may suspend or terminate an EAAP for cause. Good internal control includes an independent review of a financial report prior to the report's submission to the federal government.

  Authority management stated the independent review was not performed due to other competing work priorities taking precedence over the independent review.

Failure to comply with all program requirements for a federal program, even if the Authority ultimately discontinues participation in the program, may disqualify the Authority from making loans and administering other federal programs in the future. Further, failure to have an independent review of a report could result in management or employees not preventing, detecting, or correcting reporting errors on a timely basis. (Finding Code Nos. 12-4, 11-2)

CURRENT FINDINGS - FEDERAL COMPLIANCE

RECOMMENDATION

We recommend the Authority implement controls to ensure all federal programs are administered in strict compliance with the terms of the grant agreements and applicable federal laws, rules, and regulations. Further, the Authority should ensure each federal report undergoes an independent review by appropriate personnel prior to the Authority filing the report.

AUTHORITY RESPONSE

The Authority accepts the recommendation. The EAAP program was terminated in Fiscal Year 2012.

CURRENT FINDINGS - STATE COMPLIANCE

12-5. **FINDING** (Inadequate Controls over Monitoring Covenant Compliance)

The Illinois Finance Authority (Authority) did not have adequate internal controls to properly maintain records for monitoring covenant compliance for conduit bonds.

In accordance with the Illinois Finance Authority Act (20 ILCS 3501/801-40(c)), the Authority issues limited obligation revenue bonds and participates in lending and leasing agreements to provide low cost financing to businesses, agri-businesses, health care facilities, educational facilities, municipalities, and other organizations secured by the property financed. Although neither the Authority, State of Illinois, nor any political subdivision of the State of Illinois is obligated in any manner for the repayment of the debt, the various official bond documents from each debt issuance assign functions and responsibilities to the Authority.

During testing of the Authority's records for 40 conduit bonds outstanding, the auditors noted the Authority could not substantiate the receipt of required documentation from borrowers or show evidence of the Authority's monitoring of the following significant bond covenants:

- Seven bond issues (18%) were missing a total of nine execution documents the Authority should have received prior to each bond's closing date. The missing documentation included three official statements, two loan agreements, one financing agreement, two trust indentures, and one master trust indenture.

- Four bond issues (10%) were missing the bond issue's revised amortization and payment schedule due to the partial prepayment of the amount then owing by the borrower.

- 11 bond issues (28%) were missing a certificate of substantial completion for the capital project financed by the bond issue.

- Nine bond issues (23%) were missing a written report from the borrower setting forth the total number by each type of construction workers employed in the completion of the capital project.

- Seven bond issues (18%) were missing a written report from the borrower setting forth the number of full-time equivalent non-construction workers employed at the project for the preceding State fiscal year.

CURRENT FINDINGS - STATE COMPLIANCE

- One bond issue (3%) was missing the individual borrower's annual financial statements representation that the borrower had always maintained a minimum net worth and minimum amount of liquid assets during the preceding calendar year.

- 29 bond issues (73%) did not have an annual certification that the borrower has performed a review of its activities during the preceding year to determine that the borrower has kept, observed, performed, and fulfilled every covenant and the borrower is not in default with any covenant. If the borrower is in default with one or more covenants, the borrower must specify the nature of and detail each default to the Authority.

- Six bond issues (15%) were missing the borrower's annual audited financial statements. Further, five of these noted bond issues required submission of a separate written statement from the independent auditor that the independent auditors either have "obtained no knowledge of any default … in the fulfillment of any terms, covenants, provisions, or conditions" of the agreement or provided a disclosure describing the nature of the default. In addition, one of these noted bond issues requires a separate independent auditors' report on the borrower's Historical Debt Service Coverage Ratio and either a Cash to Indebtedness Ratio or Days Cash on Hand report.

During testing of the Authority's records for 40 conduit bonds outstanding, the auditors noted the Authority could not substantiate the receipt of required documentation from the bond trustee or show evidence of the Authority's monitoring of the following significant bond covenants:

- Seven bond issues (18%) were missing the bond trustee's quarterly statements.

- Seven bond issues (18%) were missing the bond trustee's statement for certain bond funds, such as the interest fund, bond sinking fund, redemption fund, debt service reserve fund, principle reserve fund, and revenue fund.

Authority management stated the Authority has not implemented an organized records management system capable of identifying where the specific records requested are retained in the Authority's files.

CURRENT FINDINGS - STATE COMPLIANCE

The Illinois Finance Authority Act (20 ILCS 3501/801-30(a)) states the Authority possesses all the powers as a body corporate necessary and convenient, including the power to enter into loans, contracts, agreements in any manner connected with any of its corporate purposes. Good internal controls over compliance includes establishing an internal control structure designed to fulfill the Authority's ministerial and monitoring functions as created and established within official bond documents. In addition, good internal controls include establishing and maintaining an active, continuing program for the economical and efficient management of the Authority's records.

Failure to fulfill the Authority's ministerial and monitoring functions as created and established within official bond documents represents noncompliance with the official bond document specifying the compliance requirement. Further, failure to establish and maintain a records management system capable of identifying the specific location of Authority records limits the usefulness of records retained by the Authority. (Finding Code No. 12-5)

RECOMMENDATION

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

AUTHORITY RESPONSE

The Authority accepts the recommendation. The Authority is finalizing an RFP to obtain a vendor to implement an electronic records management system at the Authority to improve document retrieval. It should be noted that the Authority inherited over 1,500 boxes of records from its seven predecessor agencies.

Given the long term nature of the Authority bond and loan programs, compliance must be established and maintained over an extended period of time. To ensure compliance on all the Authority programs, the agency will be hiring a compliance manager and establishing a formal compliance function. The compliance program will ensure that compliance responsibilities are consistently fulfilled and remain in effect throughout the life of each bond or loan program.

CURRENT FINDINGS - STATE COMPLIANCE

12-6. **FINDING** (Unable to Substantiate Compliance with the Illinois Municipal Code)

The Illinois Finance Authority (Authority) was unable to provide documentation to the auditors to substantiate the Authority's compliance with the Financially Distressed City Law of the Illinois Municipal Code.

The Illinois Municipal Code (65 ILCS 5/8-12-22(a) and 65 ILCS 5/8-12-22(b)) requires the Authority:

- Monitor the Authority's receipt of a balanced budget for the next fiscal year as adopted by the City of East St. Louis, a financially distressed city as designated by the General Assembly (City). In the event the City fails to file the adopted budget with the Authority 15 days prior to the start of the City's next fiscal year, the Authority shall certify to the Governor the City failed to file. In the event of the Authority filing this certification with the Governor, the East St. Louis Financial Advisory Authority and City resume each entity's respective powers and responsibilities pursuant to the Financially Distressed City Law of the Illinois Municipal Code;

- Monitor the Authority's receipt of the City's annual financial audit report and supplemental report for the preceding fiscal year. In the event the City fails to file the City's annual financial audit report and supplemental report for the preceding fiscal year with the Authority by August 30, the Authority shall certify to the Governor the City failed to file. In the event of the Authority filing this certification with the Governor, the East St. Louis Financial Advisory Authority and City resume each entity's respective powers and responsibilities pursuant to the Financially Distressed City Law of the Illinois Municipal Code; and,

- Review the Authority's receipt of the City's adopted budget to ensure the budget is balanced in accordance with Resolution No. 04-0522-74 (May 2004) adopted by the East St. Louis Financial Advisory Authority. In the event the Authority, following consultation with the East St. Louis Financial Advisory Authority, concludes the City's budget is not balanced, the Authority shall certify to the Governor the City failed to adopt a balanced budget. In the event of the Authority filing this certification with the Governor, the East St. Louis Financial Advisory Authority and City resume each entity's respective powers and responsibilities pursuant to the Financially Distressed City Law of the Illinois Municipal Code.

CURRENT FINDINGS - STATE COMPLIANCE

Due to the lack of documentation, the auditors were unable to conclude whether the Authority was in compliance with the Illinois Municipal Code (65 ILCS 5/8-12-22(a) and 65 ILCS 5/8-12-22(b)).

Authority management stated the Authority has not implemented an organized records management system capable of identifying where the specific records requested are retained in the Authority's files. The Authority's management noted, however, that pursuant to the Illinois Municipal Code (65 ILCS 5/8-12-22(c)), the Authority's monitoring requirements and the entire East St. Louis Financial Advisory Authority will dissolve 30 days after the Authority certifies to the Governor that the City of East St. Louis has discharged all indebtedness related to bonds issued by the Authority. As of March 11, 2013, the current payment schedule calls for the payment of all outstanding obligations by the City of East St. Louis in November 2014.

Failure to document compliance with the Financially Distressed City Law of the Illinois Municipal Code could result in the City of East St. Louis not adopting a balanced budget as required by State law and could materially impact the relationship between the City of East St. Louis and the East St. Louis Financial Advisory Authority. Further, failure to establish and maintain a records management system capable of identifying the specific location of Authority records limits the usefulness of records retained by the Authority. (Finding Code No. 12-6)

RECOMMENDATION

We recommend the Authority appropriately document monitoring and review activities of submissions of financial information, to support the Authority's determination to either submit or not submit a noncompliance certification to the Governor. Further, the Authority should develop, establish, and maintain a recordkeeping system documenting receipt of the required bond documents, which is capable of identifying the location of documents retained by the Authority.

CURRENT FINDINGS - STATE COMPLIANCE

AUTHORITY RESPONSE

The Authority accepts the recommendation. While the East St. Louis Financial Advisory Authority retains primary oversight responsibilities over city finances, the Authority will implement an independent review of the city's budgets and audited financial statements. Note that the bonds issued in support of this program will be paid off in November 2014 thereby ending the distressed city designation and terminating the oversight role of the Authority.

CURRENT FINDINGS - STATE COMPLIANCE

12-7. **FINDING** (Delinquent Reporting of Bond Activity)

The Illinois Finance Authority (Authority) did not timely submit transaction reporting for bond principal and interest payments to the Office of the State Comptroller.

During testing of 40 bond issuances with 348 distinct payments requiring the filing of a *Notice of Payment of Bond Interest and/or Principal* report (Form C-08) during Fiscal Year 2012, the auditors noted the following:

- 40 of 348 (11%) interest and/or principal payments tested had a Form C-08 filed with the State Comptroller where the payment's date, principal and interest amounts, and/or outstanding bond indebtedness did not agree with the schedule of payments contained in the respective bond's trust indenture. Further, the Authority's documentation did not have a revised *Bond Interest and Redemption Schedule* (Form C-05) filed with the State Comptroller to substantiate a change in each bond's payment schedule.

- 30 of 348 (9%) interest and/or principal payments reporting forms (Form C-08) tested were submitted to the Office of the State Comptroller between two to 50 days late. In accordance with the official documents for each bond, the bond trustees are responsible for completing and filing the information with both the State Comptroller and the Authority.

- Three of 348 interest and/or principal payments tested did not have the Form C-08 documentation on file; therefore, the auditors were unable to determine the timeliness and accuracy of these reports.

- Two of 348 interest and/or principal payments tested did not have a properly completed Form C-08, as the bond trustee did not indicate the amount of bond principal still outstanding.

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

CURRENT FINDINGS - STATE COMPLIANCE

Authority management stated the various bond trustees either did not submit or did not accurately submit the Form C-08 to the State Comptroller, as required.

Failure to timely submit accurate *Notice of Payment of Bond Interest and/or Principal* reports to the Office of the State Comptroller inhibits the State Comptroller's ability to record and monitor State debt transactions. (Finding Code Nos. 12-7, 11-5, 10-6)

RECOMMENDATION

We recommend the Authority continue to monitor and work with the bond trustees to improve compliance with principal and/or interest reporting requirements.

AUTHORITY RESPONSE

The Authority accepts the recommendation. The Authority remains active in seeking timely submittal of C-08 forms from its bond trustees. In addition to the state reporting requirements, the Authority needs the information from the C-08 forms to properly account for bond payments. However, current laws and regulations lack the enforcement capabilities needed to ensure compliance.

CURRENT FINDINGS - STATE COMPLIANCE

12-8. **FINDING** (Inadequate Control over Travel Expenses.)

The Illinois Finance Authority (Authority) did not exercise adequate control over travel expenses and ensure compliance with the *Travel Guide for State of Illinois Employees*.

During testing of the Authority's travel expenses and the Authority's travel policies, the auditors noted the following:

- 18 of 60 (30%) travel vouchers tested, totaling $29,681, were for travel expenses incurred outside of the State of Illinois. The Authority followed their internal travel policies, which only requires the approval from an employee's immediate supervisor prior to the travel. The Authority's policies did not require seeking and obtaining approval from the Governor's Office of the Management and Budget (GOMB) prior to any travel outside of the State of Illinois.

  Travel Update 03-09 (March 27, 2003), as amended by Travel Update 04-04 (October 29, 2003), requires all requests for overnight travel outside the borders of the State of Illinois receive personal review and approval by the Authority's Executive Director, who must submit the request to the GOMB no later than three weeks prior to the anticipated departure date for approval.

- Eight of 60 (13%) travel vouchers tested, totaling $16,476, included unallowable travel expenses, totaling $621. The unallowable travel expenses consisted of airline perks (checked baggage fees, early check-in fees, boarding and flexibility packages, upgrades from economy to first class, and the purchase of protection insurance for car rentals). These expenditures included charges to the Authority's charge card and expenditure reimbursements.

  The Illinois Administrative Code (Code) (80 Ill. Admin. Code 2800.230(c)) limits charge cards usage to business-related travel expenses, including lodging, meals, transportation, and other specific reimbursable expenses. Further, the Code (80 Ill. Admin. Code 3000.600) defines certain reimburseable expenses, if reasonable, to the (1) hire of room, exhibit space, set up, and such for official business, (2) laundry and dry cleaning if on travel status for at least seven consecutive days, (3) storage and handling of baggage, (4) taxis with reasonable tips, (5) telephone calls on official State business, and (6) telephone calls to secure lodging. In addition, the Authority's *Policies and Procedures Manual*, Procedure 50.40.000, specifies collision damage waiver and personal accident

CURRENT FINDINGS - STATE COMPLIANCE

insurance on rented vehicles are not reimbursable, as they are already covered by the Authority.

- Three of 60 (5%) travel vouchers tested, totaling $1,273, were submitted for reimbursement 166, 246, and 251 days after the completion of the travel.

  Internal Revenue Service Publication 535, *Business Expenses*, (Chapter 11, Page 41) requires travelers submit reimbursement requests within 60 days after the expenses were paid or incurred, or the reimbursement must be included as wages on the employee's Form W-2.

- Two of 60 (3%) travel vouchers tested, totaling $440, did not have supporting receipt documentation for certain airline transportation expenditures.

  The Code (80 Ill. Admin. Code 2800.240(e)) requires expense reimbursements supported by receipts for railroad and airplane transportation, lodging, taxis, and all other items, except meals, individually in excess of $10.

- Eight of 60 (13%) travel vouchers tested, totaling $9,500, had lodging expenses and meal allowances in excess of the maximum allowable rate by $954 without submitting exception requests to the Governor's Travel Control Board. Further, the voucher did not include evidence of the traveler contacting any additional hotels prior to making a reservation in excess of the allowable rate.

  The Code (80 Ill. Admin. Code 3000.410) places responsibility on each employee to request the lowest available lodging rate at the time of making reservations. In addition, the Code (80 Ill. Admin. Code 2800.710(b)) requires a diligent effort to obtain lodging at a rate not exceeding the maximum rate prior to booking a room at a rate in excess of the maximum reimbursement rate. Further, the Code (80 Ill. Admin. Code 2800.710(a)) provides a mechanism for obtaining approval for exceptions to the travel regulations from the Chairman of the Governor's Travel Control Board.

- Four of 60 (7%) travel vouchers tested, totaling $2,302, had mileage paid between locations in excess of the normal mileage by 25 to 93 miles, resulting in a potential overpayment of $266. The traveler did not provide an explanation for the mileage deviation.

CURRENT FINDINGS - STATE COMPLIANCE

The Code (80 Ill. Admin. Code 2800.240(d)) requires travelers using a private vehicle show, at minimum, commuting mileage, the dates, points of travel and mileage. If the distance between any given points is greater than the usual route between these points shown on a road map, the reason for the greater distance shall be explained and detailed separately.

- Eight of 60 (13%) travel vouchers tested, totaling $16,254, included hotel accommodations for employees attending either conferences or training. The travel voucher did not identify that the selected accommodation was the lowest price near the conference/seminar site or that the selected accommodation was arranged by the conference/seminar organizer. The Authority potentially incurred lodging costs in excess of the maximum allowable rate by $3,693.

  The Code (80 Ill. Adm. Code 2800.400) requires employees attending seminars or conferences in the course of State business stay in the lowest priced room available at or near the hotel or motel in which the conference or seminar is located or in accommodations arranged by the presenter. If such expenses exceed the reimbursable rate, the traveler must assert in writing the expenses met this exception to receive reimbursement for actual lodging expenses in excess of the reimbursable maximum rate.

Authority management stated the Authority completed a comprehensive review of its travel policies resulting in a new travel policy on June 27, 2012. As such, these exceptions were due to the Authority's staff following the procedures in place prior to June 27, 2012. Further, expenditures without receipts and incomplete travel expense reports were due to oversight.

Failure to exercise adequate control over travel expenditures results in noncompliance with Internal Revenue Service Publication 535 and State travel regulations, resulted in overpayments to travelers, and represents an inefficient use of State funds. (Finding Code Nos. 12-8, 11-3, 10-7)

RECOMMENDATION

We recommend the Authority implement controls to ensure all travel expenditures paid by the Authority comply with Internal Revenue Service Publication 535 and State travel regulations.

CURRENT FINDINGS - STATE COMPLIANCE

AUTHORITY RESPONSE

The Authority accepts the recommendation. During Fiscal Year 2013, the Authority will be expanding its fiscal operations and will assign responsibility for performing detailed compliance reviews of all travel expense reports submitted by both employees and board members. At least annually, common examples of noncompliance will be compiled, summarized and issued to all travelers. It should be noted that the Authority updated its travel policy and enrolled into eTravel, Governor's Office of Management and Budget out-of-State approval system, in Fiscal Year 2012.

CURRENT FINDINGS - STATE COMPLIANCE

12-9. **FINDING** (Nonpayment of Shared State Employee Services)

The Illinois Finance Authority (Authority) did not reimburse the Department of Central Management Services for the salary and salary related expenses of a State employee shared with the Authority.

During Fiscal Year 2012, the Authority entered into an interagency agreement with the Department of Central Management Services to share the services of an employee for procurement services. The interagency agreement does not require the Authority to share in the expenses of the employee for time incurred performing responsibilities and duties for the Authority; rather, the interagency agreement only required the Department of Central Management Services to bear the entire costs of the employee from State appropriations, including State-paid contributions for retirement and Social Security. Further, the liaison was not required to submit a timesheet to the Authority to document time incurred performing Authority tasks.

By paying the employee solely from State appropriations to the Department of Central Management Services, the parties to the agreement circumvented the appropriation authority of the General Assembly as provided for under the State Finance Act (30 ILCS 105/9.03).

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

The State Officials and Employees Ethics Act (5 ILCS 430/5-5(c)) requires State employees to periodically submit time sheets documenting the time spent each day on official State business to the nearest quarter hour.

Authority management stated they made every effort to comply with the interagency agreement and billing the Authority for the Authority’s share of salary and payroll expenses was at the discretion of the Department of Central Management Services.

Failure to pay for the Authority’s share of expenses for shared employees resulted in State appropriations supporting the Authority without the specific authorization of the

CURRENT FINDINGS - STATE COMPLIANCE

General Assembly and resulted in noncompliance with the State Finance Act. Further, failure to require timesheets resulted in the Authority not documenting the time spent by the shared employee on the Authority's business. (Finding Code Nos. 12-9, 11-10)

RECOMMENDATION

We recommend the Authority work with the Department of Central Management Services (CMS) to develop a reimbursement process for shared employees which allocates costs between the two agencies based on the employee's timekeeping reports.

AUTHORITY RESPONSE

The Authority accepts the recommendation. The Authority will be seeking to hire a procurement manager thereby eliminating the need for shared CMS services.

CURRENT FINDINGS - STATE COMPLIANCE

12-10. **FINDING** (Noncompliance with Contracting Procedures)

The Illinois Finance Authority (Authority) did not comply with contracting procedures.

During contractual services testing, the auditors noted the following:

- Four of nine (44%) contracts tested, totaling $185,965, were not signed by all parties before the earliest service date allowed under the contract. The length of time between the beginning date of the contractual agreements and the final signature date ranged from four to 42 days. Three of the four contracts were for legal consulting and accounting services and no payments were made pursuant to any contract before the contract was signed by all required parties.

  The Illinois Procurement Code (30 ILCS 500/20-80(d)) states, "Vendors shall not be paid for any goods that were received or services that were rendered before the contract was reduced to writing and signed by all necessary parties."

- One of nine (11%) contracts tested, totaling $15,000, was for legal services and did not have the signature of the Authority's Executive Director, execution date, and the initials of the Executive Director where revisions to the contract were proposed by the vendor. These revisions included changing the contract amount from $10,000 to $15,000 and crossing out some vendor certification provisions.

  The Statewide Accounting Management System, Procedure 15.20.30, specifies certain content requirements for professional and artistic services contracts, which includes the signature of contractor and authorized agency representative, execution date, and vendor certifications.

Authority management stated the untimely execution of contracts was due to vendor's failure to timely return signed contracts, but prompt action to secure and commence services was necessary to protect the Authority's interest while the contract process was completed. Further, Authority management stated the exceptions related to the changed contract were due to oversight.

Failure to exercise adequate control over contractual agreements may result in loss of State funds and subjects the State and the Authority to unnecessary legal risks. (Finding Code Nos. 12-10, 11-4, 10-5)

CURRENT FINDINGS - STATE COMPLIANCE

RECOMMENDATION

We recommend the Authority implement controls to ensure all contractual agreements are reduced to writing prior to the start date of contractual services. Further, the Authority should ensure all contractual agreements meet the contract content specifications of the Statewide Accounting Management System.

AUTHORITY RESPONSE

The Authority accepts the recommendation. The Authority will be seeking to hire a procurement manager who will be responsible for ensuring compliance with all State purchasing and contracting requirements.

CURRENT FINDINGS - STATE COMPLIANCE

12-11. **FINDING** (Inadequate Controls over Personal Services)

The Illinois Finance Authority (Authority) did not exercise adequate internal controls over personal services provided by employees.

During testing, the auditors noted the following:

- For 30 of 54 (56%) vacation days taken by eight tested employees, the Authority did not have documentation to support approval of the vacation time by the employee's immediate supervisor.

  The Authority's *Employee Handbook*, Section 3.3, requires all employees to request the use of vacation time in advance of the desired time off. All requests must be received and approved by an employee's supervisor, manager, or other authorized staff, taking into consideration both the employee's preference and the operational needs of the Authority.

- For one of three employee separations tested (33%), the Authority incorrectly calculated the employee's final pay, resulting in an overpayment of $1,354. The Authority did not seek reimbursement for the overpayment from the separated employee.

  The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Authority establish and maintain fiscal and administrative controls to provide assurance resources are utilized efficiently, effectively, and in compliance with applicable law.

Authority management stated these errors were due to oversight.

Failure to exercise adequate internal control over personal services resulted in a known overpayment of $1,354 to a former employee and resulted in employees not receiving approval for vacation time in accordance with the Authority's policies and procedures. (Finding Code No. 12-11)

CURRENT FINDINGS - STATE COMPLIANCE

RECOMMENDATION

We recommend the Authority remind employees of the Authority's approval process for vacation time and ensure final calculations of employee pay are accurate. Further, we recommend the Authority seek reimbursement for the overpayment of $1,354 from the separated employee.

AUTHORITY RESPONSE

The Authority accepts the recommendation. The Authority has improved controls over the use of accumulated leave time. Although the Authority employees seek their supervisors' approval for time off in advance, orally or via electronic mail, the Authority will implement a system in which the approval process for time off is documented.

PRIOR FINDINGS NOT REPEATED – STATE COMPLIANCE

A. **FINDING** (Failure to Monitor Outstanding Bonded Indebtedness of the Illinois Farm Development Bonds)

During the prior examination, the Illinois Finance Authority (Authority) did not monitor the outstanding bonded indebtedness of the Illinois Farm Development Bonds. (Finding Code No. 11-6)

Status: Implemented

During the current examination, the auditors' sample testing indicated the Authority obtained verification of outstanding indebtedness with lender banks to obtain updated information on outstanding loan balances to reconcile to amounts reported to the Office of the State Comptroller.

B. **FINDING** (Noncompliance with the Illinois State Officials and Employee Ethics Act)

During the prior examination, the Illinois Finance Authority (Authority) did not comply with provisions of the Illinois State Officials and Employee Ethics Act. (Finding Code No. 11-7)

Status: Implemented

During the current examination, the auditors' sample testing indicated the Authority's new employees timely completed ethics training and that the Authority's employees correctly recorded and documented their work hours.

PRIOR FINDINGS NOT REPEATED – STATE COMPLIANCE

C. **FINDING** (Noncompliance with the Venture Capital Investment Program)

During the prior examination, the Illinois Finance Authority (Authority) did not develop and maintain a list of manufacturing firms located within the State that are available for purchase, merger, or acquisition as required by the Illinois Finance Authority Act (Act). (Finding Code No. 11-8)

Status: Implemented

During the current examination, the auditors noted Public Act 97-0789 changed this requirement to allow the Authority, at the Authority's discretion, to and maintain a list of manufacturing firms located within the State that are available for purchase, merger, or acquisition.

D. **FINDING** (Internal Auditing Program not Implemented)

During the prior examination, the Illinois Finance Authority (Authority) did not implement an internal auditing program in accordance with the Fiscal Control and Internal Auditing Act (30 ILCS 10/2001). (Finding Code No. 11-9)

Status: Implemented

During the current examination, the auditors noted the Authority contracted with a public accounting firm to complete the Authority's internal audit plan and present internal audit reports to the Audit Committee of the Authority's Board of Directors.

PRIOR FINDINGS NOT REPEATED – STATE COMPLIANCE

E. **FINDING** (Noncompliance with Laws and Regulations)

During the prior examination, the Illinois Finance Authority (Authority) did not have an adequate process to timely identify laws and regulations applicable to the Authority to ensure compliance. (Finding Code No. 11-11)

Status: Implemented

During the current examination, the auditors noted the Authority drafted and approved an identity-protection policy, developed and implemented the "Red Flags Rule" of the Federal Trade Commission, and designated employees, officers, and employees to receive training on the Open Meetings Act.

F. **FINDING** (Failure to File Report in Implementing the American Recovery and Reinvestment Act)

During the prior examination, the Illinois Finance Authority (Authority) did not file required reports with the General Assembly for its issuance of Recovery Zone Bonds in implementing the provisions of the American Recovery and Reinvestment Act of 2009. (Finding Code 11-12)

Status: Implemented

During the current examination, the auditors noted the Illinois Finance Authority Act (20 ILCS 3501/825-107(f)) did not require any additional reports after January 15, 2011.

G. **FINDING** (Vacancies in the Membership of the Illinois Finance Authority)

During the prior examination, the Illinois Finance Authority (Authority) did not have 15 members serving on the Authority's Board of Directors. (Finding Code No. 11-13)

Status: Implemented

During the current examination's fieldwork, the auditors noted the Authority's Board of Directors has 14 members as of October 5, 2012.

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
For the Year Ended June 30, 2012

SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES

SUMMARY

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

- Fiscal Schedules and Analysis:

  Schedule of Expenditures of Federal Awards
  Notes to the Schedule of Expenditures of Federal Awards
  Analysis of State Appropriations
    Schedule of Appropriations, Expenditures and Lapsed Balances Fiscal Year 2012
    Comparative Schedule of Net Appropriations, Expenditures and Lapsed Balances
    Significant Lapse Period Expenditures
  Analysis of Significant Account Balances
    Schedule of Changes in State Property
    Schedule of Cash Funds and Depositories
    Schedule of Investments
    Schedule of Contracts
    Schedule of Conduit Debt
    Comparative Schedule of Cash Receipts
    Comparative Reconciliation of the Schedule of Cash Receipts to Deposits Remitted to the State Comptroller
    Comparative Schedule of Revenues and Expenses
    Analysis of Significant Variations in Revenues and Expenses
    Comparative Schedule of Assets and Liabilities
    Analysis of Significant Variations in Assets and Liabilities
    Analysis of Accounts Receivable
    Schedule of Federal and Nonfederal Expenditures, and New Loans

- Analysis of Operations (Unaudited)

  Authority Functions and Planning Program (Unaudited)
  Employee Compensation Plan (Unaudited)
  Average Number of Employees (Unaudited)
  Ten-Year Schedule of Jobs Created or Retained by Loans, Revenue Bonds, and Investments Made by the Authority (Unaudited)

SUMMARY (continued)

- Analysis of Operations (continued)

  Summary of Agriculture, Fire Truck and Ambulance Loan Programs (Unaudited):
  - Agricultural Development Bonds (Unaudited)
  - State Guarantee Program for Restructuring Agricultural Debt (Unaudited)
  - Farmer and Agri-Business Loan Guarantee Program (Unaudited)
  - Young Farmer and Farm Purchase Loan Guarantee Program (Unaudited)
  - Specialized Livestock Loan Guarantee Program (Unaudited)
  - Fire Truck Revolving Loan Program (Unaudited)
  - Ambulance Revolving Loan Program (Unaudited)

  Historical Summary of Agricultural Loans Issued by Program by County (Unaudited)
  Service Efforts and Accomplishments (Unaudited)

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

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2012

Federal Grantor/ Pass-through Agency/ Program Title	Federal CFDA Number	Project Number or Pass-through Entity Identifying Number	Program or Award Amount	Total Program Expenditures
U.S. Department of Agriculture Rural Development				
Intermediary Relending Program	10.767	150618484	$ 1,500,000	$ 545,493
U.S. Department of Commerce Economic Development Administration				
Passed-through the Illinois Department of Commerce and Economic Opportunity				
Economic Adjustment Assistance	11.307	06-19-01916	424,000	630,478
U.S. Department of Energy				
Passed-through the Illinois Department of Commerce and Economic Opportunity				
ARRA State Energy Program	81.041	09-460001	1,500,000	-
Total			$ 3,424,000	$ 1,175,971

The federal expenditures for the Economic Adjustment Assistance were calculated as follows:

Balance of loans outstanding	$ 91,484
Cash and investment balance	749,153
Total	840,637
Federal percentage of loan funds	75%
Federal expenditures	$ 630,478

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2012

1. ORGANIZATION

The Illinois Finance Authority (Authority) is a body politic and corporate created by the Illinois Finance Authority Act (20 ILCS 3501/801-15), effective January 1, 2004. The Act 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. The Act also repealed existing finance authorities' authorizing legislation.

The mission of the Authority as statutorily defined in the Illinois Finance Authority Act (20 ILCS 3501/801 et seq.) is to foster economic development to the public and private institutions that create and retain jobs, and improve the quality of life in Illinois by providing access to capital.

The Authority sponsors a variety of lending programs including direct lending and direct lending participation loans. The Authority also makes loans through its three federal programs, the Economic Adjustment Assistance Program, the Intermediary Relending Program, and the ARRA State Energy Program.

2. BASIS OF PRESENTATION

The schedule of expenditures of federal awards includes federal grant activity of the Authority under federal programs of the U.S. Department of Agriculture Rural Development, the U.S. Department of Commerce Economic Development Administration, and the U.S. Department of Energy for the year ended June 30, 2012. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.*

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of measurements made, regardless of the measurement focus applied.

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The schedule of expenditures of federal awards is prepared using the accrual basis of accounting. Under the accrual basis of accounting, revenues and expenditures are recognized when incurred.

(b) Terms of Agreements

Intermediary Relending Program (Major Program)

The Intermediary Relending Program participates with the USDA Rural Development's (the former 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 between 2% and 6% interest rate with maturity dates up to ten years. Total loans receivable outstanding as of June 30, 2012, were $265,067.

Economic Adjustment Assistance Program (Major Program)

The Economic Adjustment Assistance Program provides low-cost supplemental financing to manufacturing companies located in areas declared eligible for Title IX assistance by the Economic Development Administration. Loans under this program are up to $100,000 for small and mid-sized manufacturers, and carry a fixed interest rate of 7.5% with maturity dates up to ten years. Total loans receivable outstanding as of June 30, 2012, were $91,484. The Economic Adjustment Assistance Program loans are fully reserved.

The Authority decided to discontinue this program due to lack of activity in the program and returned the funds to Department of Commerce and Economic Opportunity at the end of the fiscal year. The remaining cash in the program represents the Authority's share of the revolving loan fund, which will be eventually transferred to the Authority's General Operating Fund.

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ARRA State Energy Fund

The Authority received a grant from the Department of Commerce and Economic Opportunity to be used as revolving loan fund to finance energy efficiency and renewable energy projects throughout the State. The Illinois Energy Fund was established within the Authority to administer this grant program. The grant money of $1,500,000 received towards the end of the Fiscal Year 2012 is recorded in the Authority's General Operating Fund until a separate bank account is established under the Illinois Energy Fund.

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES
Appropriations for Fiscal Year 2012
Fourteen Months Ended August 31, 2012

	Appropriations (Net After Transfers)	Expenditures Through 06/30/12	Lapse Period Expenditures 07/01 to 08/31/12	Total Expenditures	Balances Reappropriated July 1, 2012
Public Act 96-0076					
APPROPRIATED FUNDS					
FIRE TRUCK REVOLVING LOAN FUND - 572					
Loans to Fire Departments	$ 6,003,342	$ -	$ -	$ -	$ 6,003,342
AMBULANCE REVOLVING LOAN FUND - 334					
Loans to Fire Departments and ambulance services	7,006,800	-	-	-	7,006,800
TOTAL - ALL APPROPRIATED FUNDS	$ 13,010,142	$ -	$ -	$ -	$ 13,010,142

Note: Appropriations, expenditures and lapsed balances were obtained from Authority records and have been reconciled to the records of the State Comptroller.

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES

	Fiscal Years Ended June 30,		
	2012 PA 96-0076	**2011 PA 96-0956**	**2010 PA 96-0035**
FIRE TRUCK REVOLVING LOAN FUND - 572			
Appropriations (net after transfers)	$ 6,003,342	$ 6,003,342	$ 6,003,342
Expenditures			
Loans to Fire Departments	-	-	-
Total expenditures	-	-	-
Reappropriated balances	$ 6,003,342	$ 6,003,342	$ 6,003,342
AMBULANCE REVOLVING LOAN FUND - 334			
Appropriations (net after transfers)	$ 7,006,800	$ 7,006,800	$ 7,006,800
Expenditures			
Loans to Fire Departments and Ambulance Services	-	-	-
Total expenditures	-	-	-
Reappropriated balances	$ 7,006,800	$ 7,006,800	$ 7,006,800
TOTAL - APPROPRIATED FUNDS			
Appropriations (net after transfers)	$ 13,010,142	$ 13,010,142	$ 13,010,142
Total expenditures	-	-	-
Reappropriated balances	$ 13,010,142	$ 13,010,142	$ 13,010,142

Note: Appropriations, expenditures and lapsed balances were obtained from Authority records and have been reconciled to the records of the State Comptroller.

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
SIGNIFICANT LAPSE PERIOD EXPENDITURES
For the Year Ended June 30, 2012

No significant lapse period expenditures during the year.

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
SCHEDULE OF CHANGES IN STATE PROPERTY
For the Year Ended June 30, 2012

	Balance June 30, 2011	Additions	Deletions	Balance June 30, 2012
Cost				
Furniture and equipment	$ 224,898	$ -	$ -	$ 224,898
Computers and software	278,546	39,722	-	318,268
Total capital assets being depreciated	503,444	39,722	-	543,166
Accumulated depreciation				
Furniture and equipment	197,562	18,502	-	216,064
Computers and software	192,802	25,968	-	218,770
Total accumulated depreciation	390,364	44,470	-	434,834
Capital assets, net of accumulated depreciation	$ 113,080	$ (4,748)	$ -	$ 108,332

This schedule has been reconciled to property reports submitted to the Office of the State Comptroller.

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
SCHEDULE OF CASH FUNDS AND DEPOSITORIES
For the Year Ended June 30, 2012

General Operating Fund	
Banterra Bank of Marion, Illinois - Money Market	$ 587,263
Bank of America in Chicago, Illinois - Repurchase Agreements	19,713,099
The Illinois Funds - Money Market	22,223,029
Bond Fund	
U.S. Bank in Minneapolis, Minnesota	32,180
First American Treasury Obligations Fund	1,633,269
Goldman Financial Square Treasury Obligations	39,887,795
Industrial Revenue Bond Insurance Fund	
Banterra Bank of Marion, Illinois - Money Market	2,859,240
JP Morgan in Chicago, Illinois - Prime Money Market Fund	1,883,048
The Illinois Funds - Money Market	6,922,590
Credit Enhancement Fund	
U.S. Bank - First American Government Obligation Fund	600,000
Federated Government Obligations - Tax Managed	9,250
Illinois Agricultural Loan Guarantee Fund	
State Treasury - Cash	10,030,550
Illinois Farmer Agribusiness Loan Guarantee Fund	
State Treasury - Cash	7,746,485
IRBB Special Reserve Fund	
The Illinois Funds - Prime Fund	2,692,040
E.D.A. Title IX Restricted Revolving Loan Fund	
Banterra Bank of Marion, Illinois - Savings	749,153
Rural Development Revolving Loan Fund	
Banterra Bank of Marion, Illinois - Money Market	97,099
Bank of America in Chicago Illinois - Repurchase Agreements	1,883,122
Illinois Housing Partnership Program Fund	
The Illinois Funds - Money Market	1,829,611
Renewable Energy Development Fund	
Bank of America in Chicago, Illinois - Repurchase Agreements	597,173
	$ 121,975,996

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
SCHEDULE OF INVESTMENTS
For the Year Ended June 30, 2012

Description	Type	Interest Rate	Maturity Date	Recorded Value June 30, 2012
General Operating Fund				
Bank of America in Chicago, Illinois	Certificate of Deposit	0.45%	06/26/2013	$ 85,000
Bond Fund				
U.S. Bank in Minneapolis, Minnesota	Investment Contracts			7,522,973
U.S. Bank in Minneapolis, Minnesota	Federal Agency Securities			404,724
Amalgamated Bank of Chicago	Commercial Paper			11,829,318
Amalgamated Bank of Chicago	Federal Agency Securities			40,797,252
				$ 60,639,267

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
SCHEDULE OF CONTRACTS
For the Year Ended June 30, 2012

Contractor	Services Provided	Total Expenses Incurred
Acacia Financial Group, Inc.	Senior Financial Advisor	$ 57,600
ADP Total Source	Payroll and HR	181,825
Anthes, Pruyn & Associates	Accounting Services	6,155
Baker & McKenzie	Legal	263
BFPRU I, LLC	Office Rent - Chicago	282,293
Bloomberg, LLP	Financial Information Database	23,700
Burke Burns & Pinelli	Issuers Counsel/Legal	133,219
Catalyst Consulting Group, Inc.	Electronic Data Consulting	33,570
CBIZ Information Systems	Computer Systems	5,969
CDW Government, Inc.	Computer Systems	1,025
Charity and Associates, PC	Legal	85,000
Concorde Printing and Copying Inc.	Printing Services	1,712
Crowe Horwath, LLP	Accounting Services	99,169
Dykema Gossett Law Offices	Legal	130
Electronic Learning Environments	Electronic Data Consulting	169
Foley and Lardner	Legal	34,539
Franczek Radelt PC	Legal	14,234
Harleysville	Insurance	5,419
Hart, Southworth & Witsman	Legal	1,169
Hill and Knowlton	Media Consulting	17,013
Holland & Knight, LLP	Issuers Counsel/Legal	7,426
Howard Kenner	Lobbyist	31,200
Illinois Coffee Service	Water cooler rental	315
Imagetec L.P.	Information Technology	2,239
Jones Day	Legal	11,473
KattenMuchinRosenman, LLP	Audit and Compliance	26,428
Laner Muchin, Ltd.	Legal Services - 457 Plan	7,393
Mabsco Capital	Loan Management Services	66,769
Marj Halperin Consulting	Media Consulting	64,541
Mayer, Brown, Rowe & Maw, LLP	Legal	29,708
McGuire Woods, LLP	Legal	259,169
Mesirow Financial	Insurance	37,516
Miller, Canfield, Paddock & Stone, P.L.C.	Legal	19,685
MNJ Technoliges Direct, Inc.	Computer Systems	53
National Tek Services, Inc.	Computer Systems	1,325
Neopost USA, Inc.	Mail Services	428
Office Depot	Office Supplies	9,546
Pickens Kane	Storage	11,290

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
SCHEDULE OF CONTRACTS
For the Year Ended June 30, 2012

Contractor	Services Provided		Total Expenses Incurred
Pitney Bowes	Mail Services	$	180
Presidio Networked Solutions	Computer Systems		3,275
Public Financial Management	Senior Financial Advisor		24,948
Pugh, Jones, Johnson, P.C.	Legal		3,825
RK Dixon Company	Copier Services		10,599
Schiffhardin, LLC	Legal		13,018
Scott Balice Strategies	Senior Financial Advisor		17,865
Shaw Gussis Fishman Glantz Wolfson & Towbin	Legal Services		4,479
Shefsky and Froelich Ltd.	Legal Services		14,182
Shred-It	Shredding Services		1,559
Swift Impressions, Inc.	Printing Services		4,459
Tallgrass Systems Ltd.	Computer Systems		1,459
Ten Oaks	Office Rent - Mt. Vernon		15,188
The Heartland Partnership	Office Rent - Peoria		6,083
United Parcel Service	Mail Services		11,314
Xpedx	Office Supplies		1,803
	Total	$	1,704,913

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
SCHEDULE OF CONDUIT DEBT
For the Year Ended June 30, 2012

	Principal Outstanding	Number of Issues Outstanding
Illinois Finance Authority		
Revenue Bonds	$ 18,555,849,000	530
Environmental Bonds	122,987,000	6
Notes	295,303,000	4
Recovery Zone Facilities & Midwest Disaster Area	229,982,000	10
Financially Distressed City Bonds	3,240,000	1
Leases	3,965,000	2
Beginning Farmer Bonds	51,658,157	378
Total Illinois Finance Authority	19,262,984,157	931
Predecessor Authorities:		
Illinois Development Finance Authority		
501(c)3 Not-for-Profit Bonds and Leases	1,072,428,000	88
Environmental Bonds	346,870,000	17
Industrial Revenue Bonds	337,339,000	54
Infrastructure Bonds	388,895,000	20
Housing Bonds	95,496,000	10
Financially Distressed City Bonds	2,430,000	1
Leases	496,000	1
Total Illinois Development Finance Authority	2,243,954,000	191
Illinois Health Facilities Authority	1,797,621,000	73
Illinois Educational Facilities Authority	1,169,762,000	46
Illinois Farm Development Authority	27,934,421	376
Total Predecessor Authorities	5,239,271,421	686
Grand Total Illinois Finance Authority	$ 24,502,255,578	1,617

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
COMPARATIVE SCHEDULE OF CASH RECEIPTS

	Fiscal Years Ended June 30,		
	2012	2011	2010
ILLINOIS FARMER AND AGRI-BUSINESS LOAN FUND - 205			
Repayment of loan guarantees	$ -	$ 25,676	$ 8,652
Total receipts	$ -	$ 25,676	$ 8,652
AMBULANCE REVOLVING LOAN FUND - 334			
Repayment of loans	$ 160,987	$ 160,987	$ -
Total receipts	$ 160,987	$ 160,987	$ -
FIRE TRUCK REVOLVING LOAN FUND - 572			
Repayment of loans	$ 1,345,678	$ 1,243,527	$ 778,188
Total receipts	$ 1,345,678	$ 1,243,527	$ 778,188

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
COMPARATIVE RECONCILIATION OF THE SCHEDULE OF CASH RECEIPTS TO DEPOSITS REMITTED TO THE STATE COMPTROLLER

	Fiscal Years Ended June 30,		
	2012	2011	2010
ILLINOIS FARMER AND AGRI-BUSINESS LOAN FUND - 205			
Repayment of loan guarantees	$ -	$ 25,676	$ 8,652
Add cash in transit, beginning of period	25,676	-	656,550
Less cash in transit, end of period	-	25,676	-
Deposits remitted to the Comptroller	$ 25,676	$ -	$ 665,202
AMBULANCE REVOLVING LOAN FUND - 334			
Repayment of loans	$ 160,987	$ 160,987	$ -
Add cash in transit, beginning of period	-	-	-
Less cash in transit, end of period	-	-	-
Deposits remitted to the Comptroller	$ 160,987	$ 160,987	$ -
FIRE TRUCK REVOLVING LOAN FUND - 572			
Repayment of loans	$ 1,345,678	$ 1,243,527	$ 778,188
Add cash in transit, beginning of period	-	-	-
Less cash in transit, end of period	-	-	-
Deposits remitted to the Comptroller	$ 1,345,678	$ 1,243,527	$ 778,188

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
COMPARATIVE SCHEDULE OF REVENUES AND EXPENSES
For the Years Ended June 30, 2012 and 2011

	2012	2011	Increase (Decrease)	% Variance
Revenues				
Interest on loans	$ 9,242,812	$ 8,778,034	$ 464,778	5%
Interest and investment income	2,595,352	4,766,951	(2,171,599)	(46%)
Administrative service fees	2,765,760	4,736,371	(1,970,611)	(42%)
Annual fees	539,430	636,231	(96,801)	(15%)
Bad debt recoveries	1,746,322	229,224	1,517,098	662%
Miscellaneous	1,652,433	100,639	1,551,794	1542%
Loan loss reversals (provisions)	563,790	(970,552)	1,534,342	158%
Grant income	1,500,000	-	1,500,000	100%
Application fees	43,150	68,100	(24,950)	(37%)
Total revenues	20,649,049	18,344,998	2,304,051	13%
Expenses				
Interest expense	11,057,629	12,318,840	(1,261,211)	(10%)
Employee related expenses	1,790,048	2,079,082	(289,034)	(14%)
Professional services	1,447,493	1,376,247	71,246	5%
Occupancy costs	331,014	345,249	(14,235)	(4%)
General and administrative	306,628	325,378	(18,750)	(6%)
Transfer of interest in programs to State of Illinois	561,793	-	561,793	100%
Permanent capital transfer	1,000,000	-	1,000,000	100%
Depreciation	44,470	29,446	15,024	51%
Loss (gain) on sale of investments	2,074,810	(871,767)	2,946,577	(338%)
Total expenses	18,613,885	15,602,475	3,011,410	19%
Excess of revenues over expenses	$ 2,035,164	$ 2,742,523	$ (707,359)	26%

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
ANALYSIS OF SIGNIFICANT VARIATIONS IN REVENUES AND EXPENSES
For the Years Ended June 30, 2012 and 2011

	2012	2011	Increase (Decrease)	% Variance	Explanation of Significant Variations (Variance of 20% and $100,000 or more)
Interest and investment income	$ 2,595,352	$ 4,766,951	$ (2,171,599)	(46%)	Decrease was due to declining interest rates as a result of the economic conditions and lower outstanding balance of investments as compared to prior year.
Administrative service fees	2,757,760	4,736,371	(1,978,611)	(42%)	Decrease was due to fewer number and lesser amount of bonds serviced and closed during the year.
Bad debt recoveries	1,746,322	229,224	1,517,098	662%	Increase was due to the collection of two past due participation loans that were fully provided in prior years.
Miscellaneous income	1,652,433	100,639	1,551,794	1542%	Increase was due to the receipt of settlement payments from banks as a result of violation of federal securities laws, State and federal anti-trust laws.
Loan loss reversals (provisions)	563,790	(970,552)	1,534,342	158%	Increase was due to lower participation loans outstanding and lower rate of allowance for doubtful accounts as compared to prior years.
Grant income	1,500,000	-	1,500,000	100%	Increase was due to the grant received in Fiscal Year 2012 from the Department of Commerce and Economic Opportunity for energy renewable and efficiency projects.

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
ANALYSIS OF SIGNIFICANT VARIATIONS IN REVENUES AND EXPENSES
For the Years Ended June 30, 2012 and 2011

	2012	2011	Increase (Decrease)	% Variance	Explanation of Significant Variations (Variance of 20% and $100,000 or more)
Transfer of interest in programs to State of Illinois	$ 561,793	$ -	$ 561,793	100%	Increase was due to the return of grant funds in Title IX Restricted Revolving Loan Fund to the Department of Commerce and Economic Opportunity.
Permanent capital transfer	1,000,000	-	1,000,000	100%	Increase was due to the loans made and outstanding in prior years that was converted to a grant in accordance with the amendment of the Illinois Finance Authority Act (20 ILCS 3501/840-5(j)).
Loss (gain) on sale of investments	2,074,810	(871,767)	2,946,577	338%	Increase was due to the sale of remaining salable investment in venture capital portfolio during the year.

** Information obtained from the Comparative Schedule of Revenues and Expenses*

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
COMPARATIVE SCHEDULE OF ASSETS AND LIABILITIES
For the Years Ended June 30, 2012 and 2011

	2012	2011	Increase (Decrease)	% Variance
ASSETS				
Cash and cash equivalents	$ 121,975,996	$ 80,872,206	$ 41,103,790	51%
Securities lending collateral equity with State Treasurer	8,336,463	6,888,608	1,447,855	21%
Investments	60,639,267	93,536,980	(32,897,713)	(35%)
Receivables, net	159,934,954	195,023,592	(35,088,638)	(18%)
Deferred issuance costs	329,855	399,174	(69,319)	(17%)
Due from other funds	2,070,196	-	2,070,196	100%
Prepaid expenses and deposits	34,187	228,012	(193,825)	(85%)
Capital assets, net	108,333	113,080	(4,747)	(4%)
LIABILITIES				
Accounts payable and accrued expenses	1,379,206	753,428	625,778	83%
Accrued interest payable	3,957,036	4,414,709	(457,673)	(10%)
Due to employees	74,081	95,450	(21,369)	(22%)
Due to primary government	17,145,600	18,937,045	(1,791,445)	(9%)
Due to other funds	2,070,196	-	2,070,196	100%
Obligation under securities lending of State Treasurer	8,336,463	6,888,608	1,447,855	21%
Deferred revenue, net of accumulated amortization	363,636	435,030	(71,394)	(16%)
Long-term debt	545,493	603,137	(57,644)	(10%)
Bonds payable	223,440,920	249,997,008	(26,556,088)	(11%)
Unamortized issuance premium	3,163,885	4,028,468	(864,583)	(21%)
Deferred loss on early extinguishment of debt	(66,583)	(75,385)	8,802	(12%)

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
ANALYSIS OF SIGNIFICANT VARIATIONS IN ASSETS AND LIABILITIES
For the Years Ended June 30, 2012 and 2011

Following are the account balances with significant change (greater than $2 million between June 30, 2012 and June 30, 2011)

	2012	2011	Increase (Decrease)	% Variance	Analysis of Significant Change
ASSETS					
Cash and cash equivalents	$ 121,975,996	$ 80,872,206	$ 41,103,790	51%	Increase was due to the collection of participation loans, receipts from recoveries of bad debts and settlements payments from banks, and proceeds of matured investments temporarily invested in cash equivalents.
Investments	60,639,267	93,536,980	(32,897,713)	(35%)	Decrease was due to maturity of investments of the clean water and drinking water debt service reserve funds that were temporarily invested in cash equivalents.
Receivables, net	159,934,954	195,023,592	(35,088,638)	(18%)	Decrease was due to repayment of loans from bonds and notes receivable for $27 million and collections from participation loans for $10.4 million.
Due from other funds	2,070,196	-	2,070,196	100%	Increase was due from General Operating Fund for the grant received from Department of Commerce and Economic Opportunity (DCEO) for the Illinois Energy Fund temporarily deposited in the General Operating Fund and due from E.D.A. Title IX Restricted Revolving Loan Fund for the return of grant funds to the DCEO that was temporarily disbursed from the General Operating Fund.
LIABILITIES					
Bonds payable	223,440,920	249,997,008	(26,556,088)	(11%)	Decrease was due to retirement of bonds for approximately $26.6 million.
Due to other funds	2,070,196	-	2,070,196	100%	Increase was due to Nonmajor Funds for the grant received from DCEO for the Illinois Energy Fund temporarily deposited in the General Operating Fund and due from E.D.A. Title IX Restricted Revolving Loan Fund for the return of grant funds to the DCEO that was temporarily disbursed from the General Operating Fund.

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
ANALYSIS OF ACCOUNTS RECEIVABLE
For the Year Ended June 30, 2012

The Authority's accounts receivable balance at June 30, 2012 totaled $10,521. The Authority's past-due accounts receivable at June 30, 2012 totaled $10,521. An aging of the past-due accounts receivable by number of days is as follows:

0-30 Days	31-90 Days	91-180 Days	Over 180 Days
$ -	$ -	$ -	$ 10,521

Analysis of Loans Receivable

The Authority's loans receivable balance at June 30, 2012 totaled $65,264,098. The Authority's past-due loans receivable at June 30, 2012 totaled $2,216,962. An aging of the past-due loans receivable by number of days is as follows:

0-30 Days	31-90 Days	91-180 Days	Over 180 Days
$63,047,136	$ -	$ -	$ 2,216,962

Analysis of Fees Receivable

The Authority's fees receivable balance at June 30, 2012 totaled $78,920. The Authority's past-due fees receivable at June 30, 2012 totaled $32,941. An aging of the past-due fees receivable by number of days is as follows:

0-30 Days	31-90 Days	91-180 Days	Over 180 Days
$ 45,979	$ -	$ -	$ 32,941

The majority of the Authority's receivables consists of loans, bonds and notes receivable derived from its lending programs. The Authority offers a variety of lending program including direct lending and direct lending participation loans. The Authority also makes loans through its three federal programs, the Economic Development Administration Economic Adjustment Assistance Program, the Intermediary Relending Program, and the Illinois Energy Program. Bonds receivable from local governmental units represent amounts loaned to the units through the purchase of their securities.

The Authority's loans receivable are placed with a third party loan servicing provider. The loan servicing provider monitors and coordinates loan status with the banks. Loans which are 5-35 days delinquent are reviewed and coordinated with the bank for proper action. Delinquent receivables greater than 90 days are reserved for at 100% of principal outstanding. The Authority places delinquent receivables greater than 90 days with the State Comptroller's Offset system to collect delinquent receivable balances.

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
SCHEDULE OF FEDERAL AND NONFEDERAL EXPENDITURES, AND NEW LOANS
For the Year Ended June 30, 2012

Schedule A - Federal Financial Component		
Total federal expenditures reported on SEFA schedule	$ 1,175,971	
Total new loans made not included on SEFA schedule	-	
Amount of federal loan balances at beginning of the year (not included on the SEFA schedule and continued compliance is required)	-	
Other noncash federal award expenditures (not included on SEFA schedule)	-	
Total schedule A	$ 1,175,971	
Schedule B - Total Financial Component		
Total operating expenses (from financial statements)	$ 14,977,282	
Total nonoperating expenses (from financial statements)	3,636,603	
Total new loans made	-	
Amount of federal expenditures not reported as expense in the financial statements	1,175,971	
Other noncash federal award expenditures	-	
Total schedule B	$ 19,789,856	
Schedule C		Percent
Total schedule A	$ 1,175,971	5.94%
Total nonfederal expenses	18,613,885	94.06%
Total schedule B	$ 19,789,856	100%

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
AUTHORITY FUNCTIONS AND PLANNING PROGRAM (Unaudited)
For the Year Ended June 30, 2012

Description of Authority's Functions and Planning Program

The Illinois Finance Authority's (Authority) mission 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's role is to support the Governor's economic development agenda by providing required financing reserves for businesses, municipalities, and not-for-profit entities.

The governing and administrative power of the Authority is vested in the Board of Directors (Board) consisting of 15 members. The members are appointed by the governor and confirmed by the Senate. The members appoint an Executive Director from a list of nominations submitted by the Governor.

The Illinois Finance Authority Act (20 ILCS 3501/801-40) grants the Board of Directors certain powers including, but not limited to: (1) issuance of conduit debt revenue bonds; (2) facilitation of loans through full faith and credit guarantees; (3) facilitation of financing for local government and private borrowers credit enhancement through moral obligation additional security guarantees; and, (4) assist in financing through participation and direct loans.

To achieve its mission, the Authority developed and established four strategic goals that it uses to guide investments and asset allocation. This includes the following:

1. Strengthen and diversify product offering;
2. Improve stewardship of financial and human capital;
3. Expand partnership with Governor and State and Federal Agencies; and,
4. Enhance accountability, transparency and flow of information.

Each strategic goal includes action items and evaluation criteria that will facilitate an effective implementation of the strategic plans. In its first goal, the Authority plans to establish a framework in evaluating new programs and eliminate inactive programs and consolidate related programs. Appropriateness to public mission, evaluation of risk, evaluation of competitive position, and net revenue impact are the criteria in evaluating the initiatives or new product offers to the public. Evaluation of risk includes financial risk, regulatory risk and reputational risk, and evaluation of competitive position includes competitors from federal, national, regional and local financing authorities, and other state agencies. Fees, interest rates, and start-up costs involve are additional consideration in any new product offers.

In improving stewardship, the Authority plans to maintain adequate reserves against financial risk on its agricultural guarantee and direct loan programs, secure operating reserves for coming years by setting aside a certain amount for their operating reserves in the next three years as it faces the challenges in this economic recession and market downturn, and procuring an investment manager to improve its investment portfolio on available funds and generate higher return. The Authority continues to invest in professional development of its current staff and implement managerial cost accounting to better administer its human capital and resources.

The Authority looks to expand its partnerships with sister State agencies on infrastructure, transportation, and energy projects. They are working with the Department of Central Management Services, the Capital Development Board, and the Department of Commerce and Economic Opportunity on an energy efficiency financing program based on performance contracting and with the Department of Transportation on leveraging private capital, expertise and efficiency through public-private partnership.

By enhancing accountability, transparency and flow of information, the Authority reviews and reenacts its policies and handbooks to reduce audit exposure, moves towards a paperless office environment by adopting a paper reduction policies and using paper reduction technologies, and improves its data access for the Board, staff and stakeholders through the easy data access project. The easy data access project includes acquiring new database management system, integration of existing procurement and accounting systems, and implementation of data reporting and mapping applications.

The Executive Director and senior staff meets weekly to discuss and obtain status of the Authority's operations and goals. Performance measures such as the number and amount of bond issues per industry category are monitored and reported to the Board and documented in the monthly board book. Financial reports, new markets and financing participants, legislation updates, and operation reports are discussed during monthly meeting of the Board's Committee of the Whole.

During Fiscal Year 2012, the Authority successfully worked with the Illinois General Assembly to strengthen its partnership with the Office of the State Fire Marshal to reinvigorate the Fire Truck and Ambulance loan programs; furthered a partnership with the Department of Commerce and Economic Opportunity by maximizing the use of federal stimulus funds for energy projects and funds allocated through the U.S. Department of Energy for a loan program; helped stabilize the finances of the Illinois Medical District Commission so that its new board and management team can achieve its full potential; and, accomplished successful financial recoveries of troubled participation loans and financial recoveries from U.S. Securities and Exchange Commission settlements and bond issues by predecessor authorities.

<u>Head of the Agency, Location and Address</u>
Mr. Christopher Meister, Executive Director
Illinois Finance Authority
Two Prudential Plaza
180 North Stetson, Suite 2555
Chicago, Illinois 60601

Merit Compensation Plan

The Authority has adopted the 2010 Compensation Plan (the "Plan") on December 14, 2010. Every year, the Compensation Committee of the Illinois Finance Authority Board of Directors (Board) reviews the Plan for merit compensation for the coming fiscal year based on prevailing business conditions for presentation to the full Board. Changes to an employee's individual compensation will be a function of the program approved by the Board and the individual's performance.

Defined Contribution Deferred Compensation Plan

The Authority created a new defined contribution deferred compensation plan for its employees on October 1, 2006, called the Illinois Finance Authority Individual Account Plan. The purpose of the plan is to provide incentive to employees to save for their retirement and serves as an effective recruiting tool for the Authority. Under the terms of the plan, the Authority will match 200% of employee contributions into their deferred compensation accounts up to 5% of their compensation. Total contribution by the Authority into the plan accounts for Fiscal Year 2012 was $94,359.

Severance Payments

The Authority agreed to separation agreements with two employees granted them severance benefits. These benefits include continued payments of the employee's salary and health insurance premiums from one to three 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 cost of termination benefits incurred and paid in Fiscal Year 2012 was $15,341.

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
AVERAGE NUMBER OF EMPLOYEES (Unaudited)

The following is a summary of the average number of employees employed at the Authority for the year ended June 30, 2012.

	June 30, 2012	June 30, 2011
Executive Director	1	1
General Counsel	-	1
Administrative Assistant	6	5
Executive Management Staff	2	3
Funding Manager	1	1
Accountant/Finance/Compliance	3	3
IT Manager	1	1
Financial/Legal Analyst	2	2
Intern/Temporary Employee	6	6
Total average number of employees	22	23

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
TEN-YEAR SCHEDULE OF JOBS CREATED OR RETAINED BY LOANS, REVENUE BONDS AND INVESTMENTS MADE BY THE AUTHORITY (Unaudited)
For the Year Ended June 30, 2012

	Healthcare Bonds		Educational Bonds		Direct/Participation Loan		Industrial Revenue Bonds	
Fiscal Year	Amounts Closed	Jobs Created and/ or Retained	Amounts Closed	Jobs Created and/ or Retained	Amounts Closed	Jobs Created and/ or Retained	Amounts Closed	Jobs Created and/ or Retained
2012	$ 1,321,503,200	210	$ 474,685,000	67	$ -	-	$ 18,361,000	115
2011	1,653,760,000	633	221,290,000	241	-	-	399,017,184	3,988
2010	2,698,885,448	844	298,745,000	147	768,262	53	2,700,000	2
2009	2,869,285,000	766	530,600,000	126	3,115,609	18	59,389,000	242
2008	3,755,647,778	2,438	872,831,000	283	7,273,579	59	100,525,005	756
2007	1,925,140,000	684	582,306,100	679	12,275,734	259	138,187,750	688
2006	968,185,000	821	231,410,000	101	9,019,869	141	25,931,000	118
2005	937,800,000	229	842,460,000	577	3,670,727	133	53,218,000	224
2004	1,819,401,340	790	563,445,000	802	1,224,878	82	437,339,500	799
2003	-	-	-	-	1,342,383	55	92,555,000	170

Notes:

(1) *Information for the former Illinois Health Facilities Authority and the Illinois Educational Facilities Authority in 2003 is not available.*

(2) *The 2003 information was obtained from the former Illinois Development Finance Authority, while 2004 information represents July 1, 2003 through December 31, 2003 obtained from the former Illinois Development Finance Authority, and January 1, 2004 through June 30, 2004 provided by the Illinois Finance Authority.*

(3) *In Fiscal Year 2011, the Industrial Revenue Bonds increased due to the sunset date of December 31, 2010 for issuing Recovery Zone Facility Bonds.*

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
TEN-YEAR SCHEDULE OF JOBS CREATED OR RETAINED BY LOANS,
REVENUE BONDS AND INVESTMENTS MADE BY THE AUTHORITY (Unaudited)
For the Year Ended June 30, 2012

	FmHA & E.D.A Title IX		Investments in Venture Capital		Other Projects		
Fiscal Year	Amounts Closed	Jobs Created and/ or Retained	Amounts Closed	Jobs Created and/ or Retained	Amounts Closed	Jobs Created and/ or Retained	Total Construction Jobs
2012	$ -	-	$ -	-	$ 160,266,846	561	9,322
2011	-	-	-	-	301,520,000	20	4,899
2010	-	-	-	-	359,802,520	132	6,601
2009	-	-	-	-	363,562,053	503	6,209
2008	516,250	4	300,000	10	707,188,230	727	12,112
2007	317,000	12	600,000	108	315,834,330	621	6,181
2006	109,000	6	875,000	27	294,337,360	341	7,151
2005	-	-	841,697	52	220,767,900	447	3,946
2004	-	-	2,124,098	28	-	-	8,147
2003	-	-	390,100	20	-	-	826

Notes:

(1) *Information for the former Illinois Health Facilities Authority and the Illinois Educational Facilities Authority in 2003 is not available.*

(2) *The 2003 information was obtained from the former Illinois Development Finance Authority, while 2004 information represents July 1, 2003 through December 31, 2003 obtained from the former Illinois Development Finance Authority, and January 1, 2004 through June 30, 2004 provided by the Illinois Finance Authority.*

(3) *In Fiscal Year 2011, Industrial Revenue Bonds increased due to the sunset date of December 31, 2010 for issuing Recovery Zone Facility Bonds.*

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
SUMMARY OF AGRICULTURE, FIRE TRUCK AND AMBULANCE LOAN PROGRAMS (Unaudited)
For the Year Ended June 30, 2012

I. Agricultural Development Bonds

Overview

The Authority had three Agricultural Development Bond Programs in operation, the Beginning Farmer Bond, Agriculture Manufacturing Bond and Beginning Farmer Contract Bond. Through these programs, individuals and businesses ("participants") were screened for eligibility. If they were found to qualify, the Authority, the participants, and the lenders (local banks) entered into loan agreements whereby the proceeds from the issuance of a tax exempt bond were loaned to the participant for prequalified expenditures. Prior to June 2008, the limit for Agricultural Development Bonds was $250,000. In June 2008, as a part of the 2007 Farm bill, Agricultural Development Bonds were further enhanced by increasing the maximum bond amount to $450,000. In addition, the maximum amounts were indexed to inflation and will adjust annually beginning January 1, 2009. For Fiscal Year 2012, the limits were raised from $477,000 to $488,600.

The loan agreements delineated the rights and responsibilities of each of the parties. The banks were considered trustees and were responsible for the receipt of the bond proceeds, payment of qualified expenditures, payment of bond interest and principal and maintenance of necessary records. The Authority had no equity interest in any of the property or equipment, and it was not liable in any way for payment due to the bondholders.

This program benefited the participants by allowing them to borrow money at tax-exempt rates, which were generally around 2% below taxable rates.

Interest Rates

Because interest on the bonds was exempt from Federal income taxes, the interest rates were below the general market. To date, the rates charged ranged from 2.76% to 11.5%. Some of the bonds had variable rates, while others had fixed rates.

Revenues of the Program

The Authority's Operating Fund received $100 for an application fee and at closing, a fee of one and one-half percent of the principal amount of the bond (net of application fee).

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
SUMMARY OF AGRICULTURE, FIRE TRUCK AND AMBULANCE LOAN PROGRAMS (Unaudited)
For the Year Ended June 30, 2012

I. Agricultural Development Bonds (continued)

Bonds Issued

A predecessor of the Authority began issuing bonds in December 1982. The following tables detail the bonds issued by purpose and by year.

Bonds issued and outstanding by purpose as of June 30, 2012:

Purpose	Number	Amount	Percent of
Land and depreciable property	282	$ 37,285,129	11.73%
Farmland loans	2,079	236,901,574	74.51%
New equipment	484	15,379,768	4.84%
Used equipment	91	2,460,490	0.77%
New improvements	179	10,558,830	3.32%
Used improvements	2	46,000	0.01%
Breeding stock	49	1,686,650	0.53%
Soil conservation-permanent	28	686,263	0.22%
Agri-Business	79	10,386,203	3.27%
Tiling	52	1,549,276	0.49%
New no-till equipment	55	998,271	0.31%
	3,380	$ 317,938,454	100.00%
Principal payments to June 30, 2012		$ 238,345,876	
Principal outstanding at June 30, 2012		$ 79,592,578	

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
SUMMARY OF AGRICULTURE, FIRE TRUCK
AND AMBULANCE LOAN PROGRAMS (Unaudited)
For the Year Ended June 30, 2012

II. Agricultural Development Bonds (continued)

Bonds issued by year:

Fiscal Year Ended June 30*	Number	Amount
1983	322	$ 13,580,269
1984	620	32,518,257
1985	459	29,628,084
1986	221	18,414,717
1987	55	4,554,117
1988	69	6,212,934
1989	52	4,078,217
1990	75	7,939,779
1991	90	9,018,835
1992	96	9,594,370
1994	101	11,835,969
1995	81	8,236,393
1996	99	11,899,866
1997	108	14,262,251
1998	118	14,138,025
1999	78	9,284,274
2000	92	12,085,703
2001	98	11,756,702
2002	63	8,639,030
2003	83	12,428,828
2004	49	6,565,001
2005	50	7,607,515
2006	24	3,488,437
2007	51	8,511,039
2008	48	8,159,662
2009	53	9,234,655
2010	44	8,478,672
2011	40	7,002,064
2012	41	8,784,789
Total	3,380	$ 317,938,454

* *Information for years prior to 2004 obtained from former Illinois Farm Development Authority.*

II. State Guarantee Program For Restructuring Agricultural Debt

Overview

The State guarantee program for restructuring agricultural debt was authorized by the Illinois Finance Authority Act (20 ILCS 3501/830-30). It was designed to consolidate and spread out farmer's existing debt over a longer period of time at a reduced interest rate. This was accomplished by having the State of Illinois guarantee repayment of 85% of the amounts loaned under this program. Qualifications under the program dictated that a farmer must be credit-worthy, must have a debt-asset ratio of between 40% and 65%, must have sufficient collateral to secure the State guarantee and must be a principal operator of a farm.

Loans were made through participating banks that were responsible for processing a farmer's application and for servicing the loan once it was approved by the Authority. These lenders were liable for the first 15% of loss on any loan. Loans could not exceed $500,000. Repayment schedules were tailored to suit the borrowers' collateral and financial position with a maximum of a thirty-year amortized payment schedule. The procedures for extending a loan were similar to the procedures for taking out a loan. Terms of the loan could be altered during the extension process. All extended loans must have been approved by the Authority's Board. Interest rates were adjusted annually and must have been less than the market rate of interest generally available to the borrower.

Amount of Loans

During the year ended June 30, 2012, three loans were approved totaling $829,000. New loan amounts range from $97,000 to $380,000. Total outstanding loans at June 30, 2012, amounted to $14,991,071. There was a statutory limit of $160,000,000 for this guarantee program. A breakdown of loans issued by county immediately follows this section.

II. State Guarantee Program For Restructuring Agricultural Debt (continued)

<u>Revenues and Expenses of the Program</u>

The Authority's General Operating Fund received $300 for an application fee and at closing, a fee of one-half percent of the principal amount of the bond (net of application fee). The Authority also received an annual fee of one-quarter percent on the outstanding principal amount of these loans.

The expenses incurred in the program were administrative costs that were paid out of the Authority's General Operating Fund.

<u>Benefits to the Participants and Estimated Costs to the State</u>

Projected benefits included lower interest rates on loans and a more readily available source of long-term financing. These benefits lowered operating costs and provided operational stability to the farmer.

<u>Enterprise Fund</u>

Financial activities of this fund are detailed in the Illinois Agricultural Loan Guarantee Fund. This program was originally funded in fiscal year 1986 by capital contributions from the State's General Revenue Fund and by transfers from the Farm Emergency Assistance Fund, totaling $14,063,009. Operating revenues and operating expenses were recorded in the Authority's General Operating Fund.

III. Farmer and Agri-Business Loan Guarantee Program

<u>Overview</u>

The farmer and agri-business loan guarantee program was authorized by the Illinois Finance Authority Act (20 ILCS 3501/830-35). Its target population was both agri-businesses and individual farmers. Its purpose was to encourage diversification and vertical integration of Illinois agriculture. The State issued an 85% guarantee for farmers/agri-businesses and lenders who met the qualifications of the program. Loans were made through participating banks that were responsible for processing a farmer's application and for servicing the loan once it was approved by the Authority.

III. Farmer and Agri-Business Loan Guarantee Program (continued)

These lenders were liable for the first 15% of loss on any loan. There was no maximum loan amount for agri-business loans but loans shall not exceed $500,000 per farmer or an amount as determined by the Authority on a case-by-case basis for an agri-business. Loans must be repaid within 15 years. Interest rates were adjusted annually and must have been less than the market rate of interest generally available to the borrower.

Any losses incurred under State guarantees were paid from the Illinois Farmer and Agri-Business Loan Guarantee Fund or the Industrial Revenue Insurance Fund.

Amount of Loans

No new loans were made under this program in Fiscal Year 2012. The amount of loans outstanding as of June 30, 2012 was $8,207,725. A breakdown of loans issued by county immediately follows this section.

Revenues and Expenses of the Program

The Authority's General Operating Fund received $300 for an application fee and at closing, a fee of one-half percent of the principal amount of the loan (net of the application fee). The Authority also received an annual fee of one-quarter percent on the outstanding principal amount of these loans.

The program's administrative costs were paid out of the Authority's General Operating Fund.

Benefits to the Participants and Estimated Costs to the State

Projected benefits included lower interest rates on loans and a more readily available source of long-term financing. These benefits lowered operating costs and provided operational stability to the farmer. Additionally, this program sought to diversify the Illinois farm economy.

IV. Young Farmer and Farm Purchase Loan Guarantee Program

Enterprise Fund

Financial activities of this Fund were accounted for in the Farmer and Agri-Business Loan Guarantee Fund. This program, the Young Farmer and Farm Purchase Loan Guarantee Program, and the Specialized Livestock Loan Guarantee Program, were funded by an operating transfer from the Farm Emergency Assistance Fund totaling $8,110,000 during Fiscal Year 1987. These monies were to secure State guarantees issued under these three programs. Operating revenues and operating expenses were recorded in the Authority's General Operating Fund.

Overview

The young farmer and farm purchase loan guarantee program was authorized by the Illinois Finance Authority Act (20 ILCS 3501/830-45).

The young farmer and farm purchase loan guarantee program was a guarantee program designed to enhance credit availability for younger farmers who were purchasing capital assets. Loan funds could be used for new purchases of capital assets such as land, buildings, machinery, equipment, breeding livestock, soil and water conservation projects, etc. In some cases, the loan proceeds could be used to refinance existing debt as needed to improve lien positions.

All young farmer and farm purchase loan guarantee program loans were made through conventional lenders. The Authority provided an 85% guarantee of principal and interest on the loan made to a qualified borrower by a qualified lender. The lender, in consideration for the 85% guarantee, agreed to charge an interest rate lower than conventional rates. This rate could be fixed or variable as agreed between the applicant and lender.

The applicant must have been able to provide sufficient collateral to adequately secure the young farmer and farm purchase loan guarantee program loan. The maximum term for a young farmer and farm purchase loan guarantee program loan was 15 years. Loans collateralized by real estate could be amortized up to 25 years with a 15 year balloon. Loans collateralized by depreciable property were amortized over a shorter period.

IV. Young Farmer and Farm Purchase Loan Guarantee Program (continued)

The eligible applicant must:

- Have been a resident of the State of Illinois,
- Have been at least 18 years of age,
- Have been the principal operator of a farm who derived or would derive at least 50% of annual gross income from farming,
- Have had a debt to asset ratio of between 40% and 70% after purchase of the capital item,
- Have had a net worth in excess of $10,000, and
- The borrower must have provided collateral sufficient to have secured the loan and kept the loan collateral through its term. The borrower must have also demonstrated the ability to have adequately serviced the proposed debt.

The maximum loan per applicant was $500,000. An eligible applicant could use the program more than once provided that the totals of the original loan amounts did not exceed $500,000. Any losses incurred under the State guarantees were paid from the Illinois Farmer and Agri-Business Loan Guarantee Fund or the Industrial Revenue Insurance Fund.

Amount of Loans

No new loans were made under this program in Fiscal Year 2012. The amount of loans outstanding as of June 30, 2012 was $3,166,649. A breakdown of loans issued by county immediately follows this section.

Revenues and Expenses of the Program

A nonrefundable application fee of $300 must have been paid to the Authority at the time of application. The applicant paid a fee of 1% of the loan amount at closing. This closing fee was the net of the $300 application fee; however, the minimum fee was $300. The Authority received ¾% and the lender received ¼%. The lender could charge no additional fees or points other than the fee received at closing. The applicant was liable for normal and customary attorney's fees, abstracting costs, filing fees, appraisal fees and other costs of the loan. The lender agreed to pay the Authority an annual administrative fee equal to ¼% of the outstanding balance of the young farmer and farm purchase loan guarantee program loan on the payment date. The fee was not passed on to the borrower.

IV. Young Farmer and Farm Purchase Loan Guarantee Program (continued)

The program's administrative costs were paid out of the Authority's General Operating Fund.

Benefits to the Participants and Estimated Costs to the State

The benefits included lower interest rates on loans, providing a readily available source of long-term financing, lower operating costs, and provided operational stability to the farmer.

V. Specialized Livestock Loan Guarantee Program

Overview

The specialized livestock and loan guarantee program was authorized by the Illinois Finance Authority Act (20 ILCS 3501/830-50) and was similar to the farmers and agri-business loan guarantee program. Its target population was both agri-businesses and individual farmers and was designed to encourage the development of the Illinois livestock industry, by spreading out over a longer term at a reduced interest rate. The State issued an 85% guarantee for farmers/agri-businesses and lenders who met the qualifications of the program. Loans were made through participating banks that were responsible for processing a farmer's application and for servicing the loan once it was approved by the Authority. These lenders were liable for the first 15% of loss on any loan. Loans could not exceed a maximum of $1,000,000 per farmer. Loans must have been repaid within 15 years. Interest rates were adjusted annually and must have been less than the market rate of interest generally available to the borrower.

Any losses incurred under State guarantees were paid from the Illinois Farmer and Agri-Business Loan Guarantee Fund or the Industrial Revenue Insurance Fund.

Amount of Loans

No new loans were made under this program in Fiscal Year 2012. The amount of loans outstanding as of June 30, 2012 was $3,812,465. A breakdown of loans issued by county immediately follows this section.

V. Specialized Livestock Loan Guarantee Program (continued)

Revenues and Expenses of the Program

The Authority's General Operating Fund received $300 for an application fee and at closing, a fee of ¾% of the principal amount of the loan (net of the application fee). The Authority also received an annual fee of one-quarter percent on the outstanding principal amount of these loans.

The program's administrative costs were paid out of the Authority's General Operating Fund.

The total outstanding loan balance under the farmer and agri-business loan guarantee program, young farmer and farm purchase loan guarantee program, and the specialized livestock loan guarantee program could not exceed $225 million. The total outstanding loan balance for these three programs at June 30, 2012 was $15,186,839.

VI. Fire Truck Revolving Loan Program

The fire truck revolving loan program was authorized through the Illinois Finance Authority Act (20 ILCS 3501/825-80). The Fire Prevention Fund and Build Illinois Bond Fund transferred $9 million and $10 million, respectively, to the Fire Truck Revolving Loan Fund to provide zero-interest loans for the purchase of fire trucks by fire departments, fire protection districts, or township fire departments based on need, as determined by the State Fire Marshal.

Under the terms of the program, the loans may not exceed $250,000 to any fire department or district. The repayment period for each loan may not exceed 20 years and requires a minimum repayment of 5% of the principal amount borrowed each year.

No new loans were made under this program in Fiscal Year 2012. The amounts of loans outstanding as of June 30, 2012 were $16,140,930.

VII. Ambulance Revolving Loan Program

The ambulance revolving loan program was authorized through the Illinois Finance Authority Act (20 ILCS 3501/825-85). The Fire Prevention Fund transferred $4 million to the Ambulance Revolving Loan Fund to provide zero-interest loans for the purchase of

VII. Ambulance Revolving Loan Program (continued)

ambulances by a fire department, a fire protection district, a township fire department or a non-profit ambulance service based on need, as determined by the State Fire Marshal. Under the terms of the program, the loans may not exceed $100,000 to any fire department, fire protection district, or non-profit ambulance service. The repayment period may not exceed 10 years and requires a minimum repayment of 5% of the principal borrowed each year.

No new loans were made under this program in Fiscal Year 2012. The amounts of loans outstanding as of June 30, 2012 were $671,227.

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
HISTORICAL SUMMARY OF AGRICULTURAL LOANS ISSUED BY PROGRAM BY COUNTY (Unaudited)
For the Year Ended June 30, 2012

	Agricultural Development Bonds (Issued)		State Guarantee Program For Restructuring Agricultural Debt Loans (Issued)		Farmer and Agri-Business Loan Guarantee Program Loans (Issued)		Young Farmer Loan and Farm Purchase Guarantee Program Loans (Issued)		Specialized Livestock Loan Guarantee Program Loans (Issued)	
County	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
Adams	74	$ 6,564,068	27	$ 4,304,838	1	$ 36,000	4	$ 526,000	3	$ 1,917,000
Alexander	-	-	1	180,000	-	-	-	-	-	-
Bond	62	5,131,668	11	2,032,000	-	-	1	192,000	2	1,184,000
Boone	12	1,670,100	5	1,443,000	-	-	-	-	-	-
Brown	2	160,000	14	3,436,000	-	-	-	-	1	840,000
Bureau	136	11,139,407	21	4,422,014	-	-	2	356,000	4	1,246,000
Calhoun	2	181,000	5	936,110	-	-	2	340,000	-	-
Carroll	48	5,714,105	7	1,608,000	-	-	-	-	3	1,144,000
Cass	11	1,331,276	8	1,663,043	2	2,244,330	-	-	3	1,475,000
Champaign	67	4,662,464	22	3,831,011	1	362,000	-	-	-	-
Christian	83	8,257,292	13	3,343,500	-	-	3	445,000	2	1,572,000
Clark	9	497,000	12	1,718,000	-	-	-	-	-	-
Clay	49	3,495,879	6	1,079,000	-	-	1	85,000	1	780,000
Clinton	70	6,815,642	10	2,541,101	5	10,990,000	2	77,000	5	2,670,000
Coles	21	1,535,944	14	2,317,000	-	-	-	-	-	-
Crawford	42	3,070,122	33	8,189,625	6	2,676,000	3	51,500	4	501,500
Cumberland	19	1,654,500	3	606,000	1	150,000	-	-	-	-
DeKalb	62	5,510,839	37	10,154,000	-	-	1	40,000	8	4,032,000
DeWitt	14	685,675	3	940,000	1	225,000	-	-	-	-
Douglas	43	2,892,011	17	2,712,750	-	-	1	124,000	1	700,000
Edgar	49	5,003,963	28	5,770,164	1	625,000	4	513,000	1	75,000
Edwards	11	809,100	1	135,000	-	-	-	-	-	-

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
HISTORICAL SUMMARY OF AGRICULTURAL LOANS ISSUED BY PROGRAM BY COUNTY (Unaudited)
For the Year Ended June 30, 2012

	Agricultural Development Bonds (Issued)		State Guarantee Program For Restructuring Agricultural Debt Loans (Issued)		Farmer and Agri-Business Loan Guarantee Program Loans (Issued)		Young Farmer Loan and Farm Purchase Guarantee Program Loans (Issued)		Specialized Livestock Loan Guarantee Program Loans (Issued)	
County	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
Effingham	45	$ 4,906,224	1	$ 85,000	-	$ -	-	$ -	-	$ -
Fayette	42	3,114,230	8	2,060,000	-	-	-	-	-	-
Ford	55	6,400,700	8	1,440,000	-	-	2	750,000	3	1,925,000
Franklin	50	3,113,465	16	3,892,000	2	3,695,000	-	-	-	-
Fulton	32	4,248,802	13	2,211,900	2	172,000	1	310,000	1	88,000
Gallatin	10	1,643,750	6	1,298,000	1	450,000	2	650,000	-	-
Greene	1	250,000	10	1,896,000	-	-	-	-	-	-
Grundy	11	903,375	11	2,408,000	1	160,000	-	-	-	-
Hamilton	40	3,580,050	2	840,000	-	-	1	171,000	2	1,280,000
Hancock	45	4,647,138	38	5,914,888	-	-	-	-	4	782,000
Hardin	-	-	-	-	2	1,900,000	-	-	-	-
Henderson	29	3,608,969	17	3,273,500	1	45,000	2	262,000	5	2,015,000
Henry	51	7,186,047	29	5,043,000	-	-	1	57,000	3	1,140,000
Iroquois	99	8,359,036	13	2,733,000	-	-	-	-	1	170,000
Jackson	6	607,780	7	1,246,000	-	-	1	71,000	-	-
Jasper	99	6,439,937	45	8,431,626	-	-	2	240,000	12	2,155,000
Jefferson	21	1,721,900	12	2,599,000	-	-	3	765,000	1	790,000
Jersey	4	433,500	1	300,000	-	-	-	-	-	-
JoDaviess	9	716,561	26	6,710,547	2	907,000	-	-	3	1,180,000
Johnson	4	413,650	7	1,990,000	-	-	-	-	-	-
Kane	4	351,200	18	4,616,000	-	-	-	-	3	1,915,000
Kankakee	10	1,269,270	2	438,000	-	-	1	46,000	-	-

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
HISTORICAL SUMMARY OF AGRICULTURAL LOANS ISSUED BY PROGRAM BY COUNTY (Unaudited)
For the Year Ended June 30, 2012

	Agricultural Development Bonds (Issued)		State Guarantee Program For Restructuring Agricultural Debt Loans (Issued)		Farmer and Agri-Business Loan Guarantee Program Loans (Issued)		Young Farmer Loan and Farm Purchase Guarantee Program Loans (Issued)		Specialized Livestock Loan Guarantee Program Loans (Issued)	
County	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
Kendall	3	$ 273,000	9	$ 1,642,000	-	$ -	-	$ -	-	$ -
Knox	37	3,732,454	15	2,979,460	1	65,000	2	232,000	2	434,000
LaSalle	111	11,429,430	34	6,981,300	-	-	1	54,000	1	1,000,000
Lawrence	48	3,658,706	9	1,945,500	-	-	-	-	3	3,000,000
Lee	59	7,035,292	23	6,099,000	-	-	1	110,000	1	455,000
Livingston	150	15,078,817	24	6,176,210	9	7,939,000	2	388,000	4	1,230,000
Logan	38	2,376,460	13	2,200,000	-	-	2	190,000	1	520,000
Macon	11	1,035,000	5	700,000	-	-	1	75,000	-	-
Macoupin	35	5,081,701	22	4,453,000	-	-	3	416,000	6	3,400,000
Madison	24	2,816,868	16	4,359,000	-	-	9	1,756,000	-	-
Marion	13	1,113,510	32	6,522,160	1	3,200,000	3	640,000	2	507,000
Marshall	25	2,129,081	8	1,611,000	-	-	3	513,000	-	-
Mason	54	4,357,809	9	2,212,702	1	137,000	-	-	-	-
Massac	2	30,000	2	435,000	-	-	-	-	-	-
McDonough	14	1,660,050	14	3,116,000	1	300,000	1	87,000	1	520,000
McHenry	4	680,000	8	2,060,000	-	-	1	190,000	1	69,000
McLean	115	8,801,035	32	5,371,734	1	175,000	7	1,015,000	2	1,250,000
Menard	14	1,097,965	16	3,384,000	1	375,000	1	72,000	-	-
Mercer	31	4,135,461	17	3,304,600	-	-	7	707,000	11	5,838,300
Monroe	35	3,880,075	26	5,758,707	-	-	-	-	1	51,000
Montgomery	91	12,790,770	15	3,458,577	-	-	-	-	5	1,952,000
Morgan	14	1,193,830	25	5,433,319	1	1,000,000	1	194,000	1	668,000

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
HISTORICAL SUMMARY OF AGRICULTURAL LOANS ISSUED BY PROGRAM BY COUNTY (Unaudited)
For the Year Ended June 30, 2012

	Agricultural Development Bonds (Issued)		State Guarantee Program For Restructuring Agricultural Debt Loans (Issued)		Farmer and Agri-Business Loan Guarantee Program Loans (Issued)		Young Farmer Loan and Farm Purchase Guarantee Program Loans (Issued)		Specialized Livestock Loan Guarantee Program Loans (Issued)	
County	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
Moultrie	30	$ 1,627,250	6	$ 995,500	1	$ 40,000	-	$ -	1	$ 250,000
Ogle	71	6,884,047	11	2,835,000	-	-	4	751,000	2	375,000
Peoria	24	2,470,520	25	6,037,000	-	-	2	322,000	1	150,000
Perry	10	636,256	19	3,672,900	3	1,020,000	-	-	-	-
Piatt	37	1,824,734	9	1,638,000	-	-	-	-	-	-
Pike	6	945,111	48	10,667,519	1	250,000	9	1,814,000	7	4,990,000
Pope	-	-	1	500,000	-	-	-	-	-	-
Pulaski	-	-	3	940,000	-	-	-	-	-	-
Putnam	12	1,389,859	5	568,681	-	-	-	-	1	615,000
Randolph	6	552,400	14	2,583,010	-	-	2	165,000	2	380,000
Richland	36	2,495,454	5	1,523,000	8	2,353,000	2	285,000	2	605,000
Rock Island	6	1,046,623	6	1,282,000	-	-	-	-	3	1,285,000
Saline	11	677,835	3	1,082,000	-	-	1	150,000	-	-
Sangamon	40	4,028,715	41	7,679,043	-	-	1	300,000	2	925,000
Schuyler	9	848,780	-	-	-	-	-	-	-	-
Scott	6	783,300	8	1,379,538	-	-	1	181,000	-	-
Shelby	77	5,964,629	18	3,770,267	1	47,000	1	81,000	-	-
St. Clair	29	2,163,180	5	1,156,000	1	40,000	-	-	-	-
Stark	27	3,164,600	15	3,612,000	-	-	1	300,000	-	-
Stephenson	31	2,816,710	28	6,304,498	13	17,184,495	2	176,000	4	2,317,000
Tazewell	80	6,572,336	23	4,515,049	-	-	1	255,000	1	218,000
Union	21	1,131,036	2	800,000	1	860,000	-	-	-	-

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
HISTORICAL SUMMARY OF AGRICULTURAL LOANS ISSUED BY PROGRAM BY COUNTY (Unaudited)
For the Year Ended June 30, 2012

	Agricultural Development Bonds (Issued)		State Guarantee Program For Restructuring Agricultural Debt Loans (Issued)		Farmer and Agri-Business Loan Guarantee Program Loans (Issued)		Young Farmer Loan and Farm Purchase Guarantee Program Loans (Issued)		Specialized Livestock Loan Guarantee Program Loans (Issued)	
County	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
Vermillion	32	$ 3,747,807	26	$ 3,978,640	3	$ 24,848,000	1	$ 89,000	-	$ -
Wabash	5	181,300	3	676,000	-	-	-	-	-	-
Warren	57	7,507,776	17	3,507,000	1	4,000,000	3	589,000	8	3,845,000
Washington	36	2,453,570	10	2,045,000	-	-	-	-	2	1,250,000
Wayne	19	1,817,625	4	1,008,000	1	2,651,000	-	-	1	643,000
White	2	303,750	5	1,442,500	-	-	-	-	-	-
Whiteside	98	12,135,873	27	5,338,000	-	-	-	-	6	2,552,000
Will	18	1,432,940	1	300,000	-	-	-	-	-	-
Williamson	2	132,000	-	-	1	1,750,000	-	-	-	-
Winnebago	9	944,750	8	1,343,000	2	305,412	1	500,000	-	-
Woodford	52	4,172,735	18	3,011,810	2	635,000	1	100,000	3	227,000
	3,380	$ 317,938,454	1,376	$ 289,182,841	84	$ 93,812,237	118	$ 18,768,500	164	$ 73,097,800

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY
SERVICE EFFORTS AND ACCOMPLISHMENTS (Unaudited)
For the Year Ended June 30, 2012

Issuance Performance		
Total number of new issues		37
New issue value	$	1,975,095,722
Application fees	$	43,150
Administrative service fees	$	2,765,760
Operating Performance		
Total number of issues		1,617
Total outstanding issue value	$	24,502,255,578
Annual fees	$	539,430
Annual fees/total outstanding issue value		0.0022%
Total expenses	$	18,613,885
Total expenses/total outstanding issue value		0.0760%
Total expenses/total number of issues	$	11,511