

**STATE OF ILLINOIS
ILLINOIS GRAIN INSURANCE CORPORATION
(A COMPONENT UNIT OF THE STATE OF ILLINOIS)**

**FINANCIAL AUDIT AND
COMPLIANCE EXAMINATION**
For the Two Years Ended June 30, 2011

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

STATE OF ILLINOIS
ILLINOIS GRAIN INSURANCE CORPORATION
(A COMPONENT UNIT OF THE STATE OF ILLINOIS)
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2011

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STATE OF ILLINOIS
ILLINOIS GRAIN INSURANCE CORPORATION
(A COMPONENT UNIT OF THE STATE OF ILLINOIS)
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2011

AGENCY OFFICIALS

Board of Directors at June 30, 2011

President – Thomas E. Jennings, Director of the Department of Agriculture*

Secretary – Karen McNaught, Designee of Attorney General

Treasurer – Ed Buckles, Designee of State Treasurer

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

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

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

Agency offices are located at:

State Fairgrounds
801 E. Sangamon Ave.
Springfield, IL 62702

*Robert F. Flider is currently the acting Director, as Thomas E. Jennings retired from the position on October 18, 2011.



Pat Quinn, Governor
Robert F. Flider, Acting Director

Office of the Director

State Fairgrounds P.O. Box 19281 Springfield, IL 62794-9281 217/782-2172 TDD 217/524-6858 Fax 217/785-4505

STATE COMPLIANCE EXAMINATION

MANAGEMENT ASSERTION LETTER

March 8, 2012

Sikich LLP
3201 West White Oaks Drive, Suite 102
Springfield, IL 62704

Ladies and Gentlemen:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the State of Illinois, Illinois Grain Insurance Corporation (Corporation), a component unit of the State of Illinois. We are responsible for and we have established and maintained an effective system of, internal controls over compliance requirements. We have performed an evaluation of the Corporation's compliance with the following assertions during the two-year period ended June 30, 2011. Based on this evaluation, we assert that during the years ended June 30, 2011 and June 30, 2010, the Corporation has materially complied with the assertions below.

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

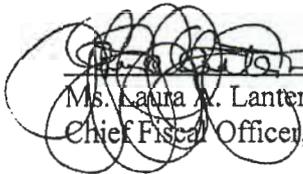
- E. Money or negotiable securities or similar assets handled by the Corporation on behalf of the State or held in trust by the Corporation have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

Yours very truly,

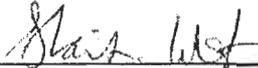
Illinois Grain Insurance Corporation



Mr. Robert F. Flider
Acting President, Illinois Grain Insurance Corporation



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



Ms. Shari West, General Counsel
Illinois Department of Agriculture

STATE OF ILLINOIS
 ILLINOIS GRAIN INSURANCE CORPORATION
 (A COMPONENT UNIT OF THE STATE OF ILLINOIS)
 FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
 For the Two Years Ended June 30, 2011

COMPLIANCE REPORT

SUMMARY

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

ACCOUNTANTS' REPORTS

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

SUMMARY OF FINDINGS

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

SCHEDULE OF FINDINGS

FINDINGS (STATE COMPLIANCE)

<u>Item No.</u>	<u>Page</u>	<u>Description</u>	<u>Finding Type</u>
11-1	11	Grain Insurance Reserve Fund not funded	Significant Deficiency and Noncompliance
11-2	12	Errors noted in assessment accounting system	Significant Deficiency and Noncompliance

PRIOR FINDINGS NOT REPEATED

<u>Item No.</u>	<u>Page</u>	<u>Description</u>
A	13	Failure to file Agency Fee Imposition Report

EXIT CONFERENCE

The Corporation waived an exit conference in correspondence dated February 29, 2012. Responses to the recommendations were provided by Laura Lanterman in correspondence dated February 29, 2012.



3201 West White Oaks Drive, Suite 102 • Springfield, IL 62704

INDEPENDENT ACCOUNTANTS' REPORT ON STATE COMPLIANCE,
ON INTERNAL CONTROL OVER COMPLIANCE, AND ON
SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES

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

Mr. Robert F. Flider
Acting President of the Board of Directors
Illinois Grain Insurance Corporation

Compliance

As Special Assistant Auditors for the Auditor General, we have examined the State of Illinois, Illinois Grain Insurance Corporation's (a component unit of the State of Illinois)(Corporation) compliance with the requirements listed below, as more fully described in the Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide) as adopted by the Auditor General, during the two years ended June 30, 2011. The management of the Corporation is responsible for compliance with these requirements. Our responsibility is to express an opinion on the Corporation's compliance based on our examination.

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

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

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

In our opinion, the Corporation complied, in all material respects, with the compliance requirements listed in the first paragraph of this report during the two years ended June 30, 2011. However, the results of our procedures disclosed instances of noncompliance, which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of findings as findings 11-1 and 11-2.

Internal Control

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

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

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 considered to be significant deficiencies as described in the accompanying schedule of findings as finding 11-1 and 11-2. 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.

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

The Corporation's responses to the findings identified in our examination are described in the accompanying schedule of findings. We did not examine the Corporation'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 Corporation as of and for the years ended June 30, 2011 and June 30, 2010 and have issued our report thereon dated March 8, 2012. The accompanying supplementary information, as listed in the table of contents as Supplementary Information for State Compliance Purposes, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Corporation. The 2011 and 2010 Supplementary Information for State Compliance Purposes, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements for the years ended June 30, 2011 and June 30, 2010, taken as a whole.

The Corporation's financial statements for the year ended June 30, 2009, which are not presented with the accompanying financial statements, were audited by other auditors whose report thereon dated March 30, 2010, expressed an unqualified opinion on the basic financial statements of the Corporation. Their report on the 2009 Supplementary Information for State Compliance Purposes, except for that portion marked "unaudited" on which they expressed no opinion, stated that, in their opinion, such information was fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2009, taken as a whole.

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

Sikich LLP

Springfield, Illinois
March 8, 2012



3201 West White Oaks Drive, Suite 102 • Springfield, IL 62704

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

Mr. Robert F. Flider
Acting President of the Board of Directors
Illinois Grain Insurance Corporation

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the State of Illinois, Illinois Grain Insurance Corporation (a component unit of the State of Illinois) (Corporation), as of and for the years ended June 30, 2011 and June 30, 2010 and have issued our report thereon dated March 8, 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 Corporation is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal

control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

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

Sikich LLP

Springfield, Illinois
March 8, 2012

STATE OF ILLINOIS
ILLINOIS GRAIN INSURANCE CORPORATION
(A COMPONENT UNIT OF THE STATE OF ILLINOIS)
SCHEDULE OF FINDINGS (STATE COMPLIANCE)
For the Years Ended June 30, 2011

11-1 **FINDING:** (Grain Insurance Reserve Fund not funded)

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

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

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

The Corporation’s management indicated the Grain Insurance Reserve Fund was not funded because the funds were not appropriated. Management also indicated they did not request an appropriation in fiscal years 2010 and 2011 because of budgetary constraints on the General Revenue Fund.

Failure to establish the Grain Insurance Reserve Fund decreases the insurance reserves the legislature mandated by State law to further insure grain farmers from the potential losses of failed grain warehouses and dealers. (Finding Code No. 11-1, 09-1, 07-2, 05-2)

RECOMMENDATION:

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

CORPORATION RESPONSE:

The Corporation agrees with the finding and will request the appropriation in future budget years.

11-2 **FINDING:** (Errors noted in assessment accounting system)

The Illinois Grain Insurance Corporation's (Corporation) accounting system had several errors relating to assessment receivables that required adjustments.

The Corporation maintains a database driven accounting system which consists of a general ledger and subsidiary ledger that tracks billings and receivables. When testing receivables, we noted the subsidiary receivable ledger had 28 accounts netting a balance of \$1,525, even though the trial balance indicated a balance of zero. Account errors ranged from a few cents to over \$2,000.

Good internal control procedures dictate that subsidiary accounts receivable records reconcile to the trial balance. Without a reconciliation, errors may go undetected.

Corporation management stated that staff was unaware of the need to adjust the subsidiary receivable as well as the trial balance.

Although errors noted were not material, failure to identify and correct discrepancies can cause material misstatements. (Finding Code No. 11-2)

RECOMMENDATION:

We recommend the Corporation provide necessary training and develop procedures to facilitate proper posting and reconciliation of its accounting system.

CORPORATION RESPONSE:

The Corporation agrees with the finding and will review both the system and its procedures for correcting errors in the receivables.

PRIOR FINDINGS NOT REPEATED (STATE COMPLIANCE)

A. **FINDING:** (Failure to File Agency Fee Imposition Report)

During the prior engagement period, the Corporation had not filed the annual Agency Fee Imposition Report (Report) with the Office of the Comptroller as required by the State Comptroller Act.

During the current period, the Corporation was unable to obtain an agency code from the Comptroller in time to utilize the online system for filing the Report for fiscal year 2010, but filed the fiscal year 2011 Report with the Comptroller in a timely manner. (Finding Code No. 09-2)

STATE OF ILLINOIS
ILLINOIS GRAIN INSURANCE CORPORATION
(A COMPONENT UNIT OF THE STATE OF ILLINOIS)
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2011

FINANCIAL STATEMENT REPORT

SUMMARY

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

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



3201 West White Oaks Drive, Suite 102 • Springfield, IL 62704

INDEPENDENT AUDITORS' REPORT

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

Mr. Robert F. Flider
Acting President of the Board of Directors
Illinois Grain Insurance Corporation

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the State of Illinois, Illinois Grain Insurance Corporation (a component unit of the State of Illinois) (Corporation), as of and for the years ended June 30, 2011 and June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of June 30, 2011 and June 30, 2010, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 8, 2012 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The Corporation has not presented a management's discussion and analysis that the accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

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

Sikich LLP

Springfield, Illinois
March 8, 2012

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

STATEMENT OF NET ASSETS

JUNE 30, 2011

(Expressed in Thousands)

Assets:

Cash and Cash Equivalents	\$	6,961
Other Receivables		4
Due from Primary Government		49
		<hr/>

Total Assets	\$	7,014
		<hr/> <hr/>

Net Assets:

Restricted for Environmental and Business Regulation	\$	7,014
		<hr/>

Total Net Assets	\$	7,014
		<hr/> <hr/>

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

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011
(Expressed in Thousands)

Operating Revenues	
Charges for Services	\$ 223
Total Operating Revenues	<u>223</u>
Operating Expenses	
Environmental and Business Regulation	<u>13</u>
Operating Income	<u>210</u>
Nonoperating Revenues	
On Behalf Contribution	13
Recovery on Claims Paid	11
Interest and Investment Income	8
Total Nonoperating Revenues	<u>32</u>
Change in Net Assets	242
Net Assets July 1, 2010	<u>6,772</u>
Net Assets June 30, 2011	<u>\$ 7,014</u>

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

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

STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2011
 (Expressed in Thousands)

Cash flows from operating activities:	
Cash received for fees and other	\$ 226
Net cash provided by operating activities	<u>226</u>
Cash flows from investing activities:	
Interest and dividends on investments	<u>8</u>
Net cash provided by investing activities	<u>8</u>
Cash flows from other non capital financing activities:	
Recovery on claims paid	<u>11</u>
Net cash provided by other non capital financing activities	<u>11</u>
Net increase in cash and cash equivalents	<u>245</u>
Cash and cash equivalents at beginning of year	<u>6,716</u>
Cash and cash equivalents at end of year	<u>\$ 6,961</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 210
Adjustments to reconcile operating income to net cash provided by operating activities:	
On behalf expenses	13
Changes in assets and liabilities:	
Other receivables	<u>3</u>
Net cash provided by operating activities	<u>\$ 226</u>

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

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

STATEMENT OF NET ASSETS
JUNE 30, 2010
(Expressed in Thousands)

Assets	
Cash and Cash Equivalents	\$ 6,716
Other Receivables	7
Due from Primary Government	<u>49</u>
Total Assets	<u><u>\$ 6,772</u></u>
Net Assets	
Restricted for Environmental and Business Regulation	<u><u>\$ 6,772</u></u>

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

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010
(Expressed in Thousands)

Operating Revenues	
Charges for Services	\$ 266
Less Charges Written Off	(44)
Total Operating Revenues	<u>222</u>
Operating Expenses	
Environmental and Business Regulation	<u>16</u>
Operating Income	<u>206</u>
Nonoperating Revenues	
On Behalf Contribution	16
Recovery on Claims Paid	284
Interest and Investment Income	8
Total Nonoperating Revenues	<u>308</u>
Change in Net Assets	514
Net Assets July 1, 2009	<u>6,258</u>
Net Assets June 30, 2010	<u>\$ 6,772</u>

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

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

STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2010
 (Expressed in Thousands)

Cash flows from operating activities:	
Cash received for fees and other	\$ 1,183
Transfer to Grain Indemnity for Grain Asset Preservation	(23)
Net cash provided by operating activities	<u>1,160</u>
Cash flows from investing activities:	
Interest and dividends on investments	8
Net cash provided by investing activities	<u>8</u>
Cash flows from other non capital financing activities:	
Recovery on claims paid	284
Net cash provided by other non capital financing activities	<u>284</u>
Net increase in cash and cash equivalents	<u>1,452</u>
Cash and cash equivalents at beginning of year	<u>5,264</u>
Cash and cash equivalents at end of year	<u><u>\$ 6,716</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 206
Adjustments to reconcile operating income to net cash provided by operating activities:	
On Behalf expenses	16
Changes in assets and liabilities:	
Other receivables	961
Due from Primary Government	(23)
Net cash provided by operating activities	<u><u>\$ 1,160</u></u>

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

STATE OF ILLINOIS
ILLINOIS GRAIN INSURANCE CORPORATION
(A COMPONENT UNIT OF THE STATE OF ILLINOIS)

Notes to the Financial Statements
June 30, 2011 and 2010

1. Organization

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

2. Summary of Significant Accounting Policies

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

a. The Reporting Entity

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

b. Basis of Presentation

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

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

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

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

c. Basis of Accounting and Measurement Focus

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

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

d. Cash Equivalents

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

e. Net Assets

The statement of net assets reports \$7,014 and \$6,772 (expressed in thousands) of restricted net assets for the years ending June 30, 2011 and June 30, 2010, respectively. The entire balance is restricted by enabling legislation.

f. Classification of Revenues

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

Charges for Services

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

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

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

Nonoperating revenues include interest income, recovery on claims paid, and on behalf contribution from the Department of Agriculture for administrative support.

g. On Behalf Revenues and Expenses

In accordance with Governmental Accounting Standards Board ("GASB") Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, the Corporation reported a contribution of \$13 and \$16 thousand made by the Department of Agriculture in fiscal year 2011 and 2010, respectively. The Department contribution is reported as nonoperating revenue as on behalf contribution with an equal and offsetting amount reported with environmental and business regulation expense.

3. Deposits

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

Investments

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

National Mortgage Association and Illinois Funds. The Corporation's investments at June 30, 2011 and 2010 were with the Illinois Funds Money Market Fund held at U.S. Bank in Springfield, Illinois.

The monies invested by the individual participants of the Illinois Funds Money Market Fund are pooled together and invested in U.S. Treasury bills and notes backed by full faith and credit of the U.S. Treasury. In addition, monies are invested in fully collateralized time deposits in Illinois financial institutions, in collateralized repurchase agreements, and in treasury mutual funds that invest in U.S. Treasury obligations and collateralized repurchase agreements.

The time deposits are collateralized 105% over FDIC or FSLIC \$250,000 insurance with U.S. Treasury obligations and marked to market on a daily basis to maintain sufficiency. The repurchase agreements are collateralized at 102% with U.S. Treasury obligations and the collateral is checked daily to determine sufficiency.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Corporation does not have a formal policy that addresses this type of investment risk.

The Illinois Funds Money Market Fund is an external investment pool managed by the Illinois State Treasurer. The weighted average maturity for Illinois Funds is 38 days. The Illinois Funds is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in the Illinois Funds are valued at the Illinois Fund Money Market's share price, which is the price the investment could be sold for.

Credit Risk

Generally, credit risk is the risk that an issuer of a debt investment will not fulfill its obligations to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Corporation does not have a formal policy on limiting credit risk. However, the Corporation's investments are held in the State Investment Pool. As of year-end, the State Investment Pool (Illinois Funds) had a rating of AAAM from Standard and Poor's.

Concentration of Credit Risk and Custodial Credit Risk

Concentration risk is the risk of loss attributed to the concentration of an entity's investment in a single issuer. Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the Corporation will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Corporation's investments at June 30, 2011 and 2010 are not subject to concentration of credit risk or custodial credit risk.

4. Intergovernmental Activity

Balances Due From Primary Government

Due from primary government represents amounts due from the Illinois Department of Agriculture's Grain Indemnity Trust Fund (Trust Fund). The Illinois Grain Code established the Grain Asset Preservation Account, an account within the Trust Fund, to be funded up to \$50 thousand via transfers of interest accrued within the Illinois Grain Insurance Fund. Such amounts have been deemed a receivable from the Trust Fund.

5. Collateral

The Illinois Grain Code (240 ILCS 40/1) requires licensees maintain certain operating ratios in order to maintain or renew their licenses as grain dealers and/or warehousemen. From time to time, licensees may not be able to maintain the required ratios. The Grain Code requires the Illinois Department of Agriculture to require collateral from the licensee specific to the deficiency. Should a failure occur, a licensee's collateral would be used to offset any deficiencies before using Corporation funds to offset a deficiency. Collateral may be posted using cash or cash equivalents, certificates of deposit, irrevocable letter of credit, or any other property acceptable to the Department to the extent there is equity in the property.

At June 30, 2010 and 2011, the Department held \$17,348 and \$15,831 (amounts expressed in thousands), respectively, of collateral posted by licensees.

STATE OF ILLINOIS
ILLINOIS GRAIN INSURANCE CORPORATION
(A COMPONENT UNIT OF THE STATE OF ILLINOIS)
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2011

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

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

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

STATE OF ILLINOIS
ILLINOIS GRAIN INSURANCE CORPORATION
(A COMPONENT UNIT OF THE STATE OF ILLINOIS)

Introduction

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

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

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

STATE OF ILLINOIS
 ILLINOIS GRAIN INSURANCE CORPORATION
 (A COMPONENT UNIT OF THE STATE OF ILLINOIS)
Comparative Schedule of Revenues
 Years Ended June 30, 2011, 2010, and 2009

Illinois Grain Insurance Fund - #1205

	<u>2011</u>	<u>2010</u>	<u>2009</u>	Increase/ (Decrease) <u>2010 to 2011</u>	Increase/ (Decrease) <u>2009 to 2010</u>
Assessment Fees	\$ 218,889	\$ 213,315	\$ 1,561,682	\$ 5,574	\$ (1,348,367)
Penalties	1,000	6,382	4,250	(5,382)	2,132
Recovery of Claims*	11,209	284,265	-	(273,056)	284,265
Printer Fees	2,700	2,800	2,500	(100)	300
On Behalf Contribution	12,550	16,045	13,000	(3,495)	3,045
Interest Income	7,992	8,030	46,958	(38)	(38,928)
 Total Revenue	 <u>\$ 254,340</u>	 <u>\$ 530,837</u>	 <u>\$ 1,628,390</u>	 <u>\$ (276,497)</u>	 <u>\$ (1,097,553)</u>

* In fiscal year 2009, recovery of claims paid were netted against claims expenditures due to their immateriality.

STATE OF ILLINOIS
ILLINOIS GRAIN INSURANCE CORPORATION
(A COMPONENT UNIT OF THE STATE OF ILLINOIS)
Explanation of Significant Variations in Expenses
For the Years ended June 30, 2011 and 2010
(Expressed in Thousands)

	Fiscal Year 2011	Fiscal Year 2010	Increase (Decrease)
Recovery of Claims Expenditure	\$ -	\$ -	\$ -
Recovery Expenditure	-	-	-
Refunds	-	-	-
On Behalf Employee Expenses	13	16	(3)
Total Expenses	\$ 13	\$ 16	\$ (3)

	Fiscal Year 2010	Fiscal Year 2009	Increase (Decrease)
Recovery of Claims Expenditure	\$ -	\$ (2)	\$ 2
Recovery Expenditure	-	22	(22)
Refunds	-	2	(2)
On Behalf Employee Expenses	16	13	3
Total Expenses	\$ 16	\$ 35	\$ (19)

Recovery expenditures were for the life insurance premiums paid in fiscal year 2009 for an individual. The policy was payable to the Corporation. The individual passed away and the policy proceeds were collected, no longer requiring the monthly policy premiums to be paid. As such, no recovery expenditures were required in 2010.

Refunds are only made when erroneous overpayments are made by the Corporation, under authorization of the Director. During fiscal years 2010 and 2011, no overpayments were made that required refund.

On behalf employee expenses are an estimate of management time and associated expense provided by the Department of Agriculture. The expense varies based on staffing levels and annual salaries.

STATE OF ILLINOIS
ILLINOIS GRAIN INSURANCE CORPORATION
(A COMPONENT UNIT OF THE STATE OF ILLINOIS)

Explanation of Significant Variations in Revenues

For the Years Ended June 30, 2011 and 2010

(Expressed in Thousands)

	Fiscal Year 2011	Fiscal Year 2010	Increase (Decrease)
Dealer and Warehouse Assessments	\$ 219	\$ 175	\$ 44
Grain Seller Assessment	-	-	-
Lender Assessment	-	38	(38)
Total Assessment Revenue	\$ 219	\$ 213	\$ 6

	Fiscal Year 2010	Fiscal Year 2009	Increase (Decrease)
Dealer and Warehouse Assessments	\$ 175	\$ 1,078	\$ (903)
Grain Seller Assessment	-	272	(272)
Lender Assessment	38	212	(174)
Total Assessment Revenue	\$ 213	\$ 1,562	\$ (1,349)

Dealer and warehouse assessments are a function of requests for new licenses, and increases in permanent, temporary and emergency storage increases. These vary based upon the business climate, the size and storage needs of the industry. Revenues are subject to the industries' request for same.

All assessment revenue decreased from fiscal year 2009 to 2010. Whenever the equity in the Illinois Grain Insurance Fund (Fund) falls below \$6 million, a subsequent assessment is triggered. There was a subsequent assessment occurring in fiscal year 2009 as the Fund's equity fell below \$6 million. No subsequent assessments were necessary in fiscal years 2010 and 2011 as the Fund's equity exceeded \$6 million.

STATE OF ILLINOIS
ILLINOIS GRAIN INSURANCE CORPORATION
(A COMPONENT UNIT OF THE STATE OF ILLINOIS)

Explanation of Significant Variations in Revenues

For the Years Ended June 30, 2011 and 2010

(Expressed in Thousands)

	Fiscal Year 2011	Fiscal Year 2010	Increase (Decrease)
Recovery of Claims	\$ 11	\$ 284	\$ (273)

	Fiscal Year 2010	Fiscal Year 2009	Increase (Decrease)
Recovery of Claims	\$ 284	\$ -	\$ 284

The majority of the change in Recovery of Claims is attributed to the collection of a \$250,000 life insurance policy in fiscal year 2010 to which the Corporation was beneficiary. The balance of the difference can be attributed to collections the Corporation receives for restitutions that arrive unsolicited from the court system.

	Fiscal Year 2011	Fiscal Year 2010	Increase (Decrease)
Interest Income	\$ 8	\$ 8	\$ -

	Fiscal Year 2010	Fiscal Year 2009	Increase (Decrease)
Interest Income	\$ 8	\$ 47	\$ (39)

The decrease in interest income from 2009 to 2010 is attributed to the large decrease in average yield on the Corporation's money market account. The average yield during fiscal year 2009 was 1.055% as compared to 0.128% during fiscal year 2010.

STATE OF ILLINOIS
ILLINOIS GRAIN INSURANCE CORPORATION
(A COMPONENT UNIT OF THE STATE OF ILLINOIS)

Analysis of Accounts Receivable

For the Years Ended June 30, 2011 and 2010

(Expressed in Thousands)

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Receivables	\$ 4	\$ 7	\$ 968
Due from Primary			
Government	<u>49</u>	<u>49</u>	<u>26</u>
Totals	<u>\$ 53</u>	<u>\$ 56</u>	<u>\$ 994</u>
Estimated Collectible	<u>\$ 53</u>	<u>\$ 56</u>	<u>\$ 994</u>

Other receivables decreased from \$968 thousand at June 30, 2009 to \$7 thousand at June 30, 2010. During Fiscal year 2009, the equity in the Illinois Grain Insurance Fund (IGIF) fell below the required \$6 million, thus requiring an assessment. This resulted in a significant assessment due from grain dealers at June 30, 2009. Almost all assessments were collected during fiscal year 2010 and the final equity reached the required \$6 million, so no subsequent assessment was required during fiscal year 2010.

Due from primary government represents amounts due from the Illinois Department of Agriculture's Grain Indemnity Trust Fund (Trust Fund). The Illinois Grain Code established the Grain Asset Preservation Account, an account within the Trust Fund, to be funded up to \$50 thousand via transfers of interest accrued within the IGIF. Such amounts have been deemed a receivable from the Trust Fund. During fiscal year 2009, Grain Asset Preservation Account funds were expanded to maintain a life insurance policy on an individual, with the Corporation as beneficiary. The individual passed away, no longer requiring insurance premiums, and the Corporation received \$250 thousand in life insurance proceeds. Interest continues to be transferred to the Grain Asset Preservation Account to bring the balance to the required \$50 thousand.

STATE OF ILLINOIS
ILLINOIS GRAIN INSURANCE CORPORATION
(A COMPONENT UNIT OF THE STATE OF ILLINOIS)

Agency Functions and Planning Program
For the Years Ended June 30, 2011 and 2010

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

The Corporation is located in the State of Illinois, Illinois Department of Agriculture (Department), State Fairgrounds, Springfield, Illinois. At June 30, 2011, the Corporation operated under the direction of the following Board of Directors:

Board Member and President*

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

Board Member and Secretary

Karen McNaught, Designee of Attorney General

Board Member and Treasurer

Ed Buckles, Designee of State Treasurer

Board Member

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

Board Member

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

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

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

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

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

*Robert F. Flider is currently the acting Director, as Thomas E. Jennings retired from the position on October 18, 2011.

STATE OF ILLINOIS
 ILLINOIS GRAIN INSURANCE CORPORATION
 (A COMPONENT UNIT OF THE STATE OF ILLINOIS)
Schedule of Grain Dealers and Grain Warehouses
 For the Years Ended June 30, 2011 and 2010
 (Unaudited)

	<u>Fiscal Year 2011</u>	<u>Fiscal Year 2010</u>
Active Dealers/ Warehouses - beginning of year	312	319
Add: New dealer/ warehouses	7	9
Less: Closed or insolvent dealers/ warehouses	<u>(16)</u>	<u>(16)</u>
Active Dealers/ Warehouses - end of year	<u><u>303</u></u>	<u><u>312</u></u>