

McGladrey & Pullen

Certified Public Accountants

State of Illinois Illinois Finance Authority

Compliance Examination
For the Year Ended June 30, 2006

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

State of Illinois
Illinois Finance Authority

Compliance Examination
For the Year Ended June 30, 2006

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Financial Statement Report

The financial statements of the State of Illinois, Illinois Finance Authority as of June 30, 2006 and for the year then ended are published in a separate document and are incorporated herein by reference

**State of Illinois
Illinois Finance Authority**

**Compliance Examination
For the Year Ended June 30, 2006**

Authority Officials

Acting Executive Director Jill Rendleman

Chairman of the Board of Directors David C. Gustman

Chief Financial Officer Jose Garcia

Chief Operations Officer Stuart Boldry

Board Member Demetris A. Giannoulas

Board Member Michael Goetz

Board Member Dr. Roger D. Herrin

Board Member Edward H. Leonard Sr.

Board Member Martin Nesbitt

Board Member Terance M. O'Brien

Board Member Andrew W. Rice

Board Member Joseph P. Valenti

Board Member James Fuentes

Board Member Magda Boyles

Board Member Bradley A. Zeller

Board Member Juan B. Rivera 08/15/05 – Current

Board Member Ronald E. DeNard 09/02/05 – Current

Board Member Lynn F. Talbott 11/08/05 – Current

Authority offices are located at:

Chicago Office

180 N. Stetson Avenue
Suite 2555
Chicago, Illinois 60601

Carbondale Office

150 E. Pleasant Hill Road
Carbondale, Illinois 62901

Springfield Office

427 E. Monroe Street
Suite 202
Springfield, Illinois 62701

Peoria Office

124 SW Adams Street
Suite 300
Peoria, Illinois 61602

Mt. Vernon Office

2929 Broadway Street, # 7B
Mt. Vernon, IL 62864



Governor, Rod R. Blagojevich
Interim Executive Director, Jill Rendleman

180 North Stetson Ave.
Suite 2555
Chicago, IL 60601
312-651-1300
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MANAGEMENT ASSERTION LETTER

December 7, 2006

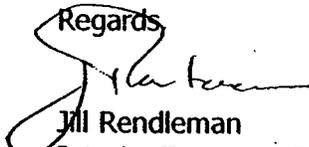
McGladrey & Pullen, LLP
Certified Public Accountants
20 North Martingale Road Suite 500
Schaumburg, Illinois 60173

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 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 Authority's compliance with the following assertions during the year ended June 30, 2006. Based on this evaluation, we assert that during the year ended June 30, 2006, the Authority has materially complied with the assertions below.

- A. The 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 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 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. The State revenues and receipts collected by the 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.
- E. The money or negotiable securities or similar assets handled by the Authority on behalf of the State or held in trust by the Authority have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

ILLINOIS FINANCE AUTHORITY

Regards

Jill Rendleman
Interim Executive Director


Jose Garcia
Chief Financial Officer

State of Illinois
Illinois Finance Authority

Compliance Examination
For the Year Ended June 30, 2006

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.

Auditors' 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>This Report</u>	<u>Prior Report</u>
Findings	7	9
Repeated findings	2	3
Prior recommendations implemented or not repeated	7	11

Details of findings are presented in a separately tabbed report section.

Schedule of Findings

<u>Item No.</u>	<u>Page</u>	<u>Description</u>
CURRENT FINDINGS (<i>STATE COMPLIANCE</i>)		
06-01	9	Noncompliance with the Personnel Code – Incentive Base Compensation
06-02	11	Failure to Report Revenue Bond Information to the Illinois Office of the Comptroller
06-03	12	Missing and Incomplete Documents in State Guaranteed Agriculture Loans
06-04	13	Contract Not Executed Timely
06-05	15	Approval of Incomplete Travel and Marketing Reimbursement Forms
06-06	17	Inadequate Processing and Untimely Deposit of Cash Receipts and Refunds
06-07	18	Missing Documents from Personnel File

State of Illinois
Illinois Finance Authority

Compliance Examination
For the Year Ended June 30, 2006

Compliance Report

Schedule of Findings (Continued)

<u>Item No.</u>	<u>Page</u>	<u>Description</u>
		PRIOR FINDINGS – NOT REPEATED (<i>GOVERNMENT AUDITING STANDARDS</i>)
06-08	19	Noncompliance with the State Officers and Employee Money Disposition Act
		PRIOR FINDINGS – NOT REPEATED (<i>STATE COMPLIANCE</i>)
06-09	20	Noncompliance with Illinois Procurement Code and Statewide Accounting Management System (SAMS) Procedures
06-10	20	Voucher Processing Controls Need to be Improved
06-11	20	Untimely Submission of Quarterly State Property Records with the Illinois Office of the Comptroller
06-12	20	Untimely Submission of Receipt Deposit Transmittals with the Illinois Office of the Comptroller
06-13	21	Noncompliance with Printing Requirements of the Procurement Code
06-14	21	Lack of Interest Rate Risk and Credit Risk Policy

Exit Conference

The findings and recommendations appearing in this report were discussed with Agency personnel at an exit conference on April 12, 2007. Attending for the Illinois Finance Authority were Jill Rendleman, Acting Executive Director; Jose Garcia, Chief Financial Officer; Stuart Boldry, Chief Operations Officer; Steve Trout, Chief Credit Officer; Kimberly Copp, Contract General Counsel. Attending for McGladrey & Pullen, special assistant auditors were Joe Evans, Partner and Sean Hickey, Supervisor. Attending for the Office of the Auditor General was Jon Fox, Audit Manager. Responses to the recommendations were provided by Jill Rendleman in a letter dated April 26, 2007.

McGladrey & Pullen

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

Compliance

As Special Assistant Auditors for the Auditor General, we have examined State of Illinois, Illinois Finance Authority's (Authority) 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, 2006. The management of the Authority is responsible for compliance with these requirements. Our responsibility is to express an opinion on the Authority's compliance based on our examination.

- A. The 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 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 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. The State revenues and receipts collected by the 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.
- E. Money or negotiable securities or similar assets handled by the Authority on behalf of the State or held in trust by the 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 Authority's compliance with those requirements 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 Authority's compliance with specified requirements.

In our opinion, the Authority complied, in all material respects, with the aforementioned requirements during the year ended June 30, 2006. However, the results of our procedures disclosed instances of noncompliance with those 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 as findings 06-01, 06-02, 06-03, 06-04, 06-05, 06-06, and 06-07. As required by the Audit Guide, immaterial findings relating to instances of noncompliance excluded from this report have been reported in a separate letter to your office.

Internal Control

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws and regulations. In planning and performing our examination, we considered the Authority's internal control over compliance with the aforementioned requirements in order to determine 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.

We noted certain matters involving internal control over compliance and its operations that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Authority's ability to comply with one or more of the aforementioned requirements. Reportable conditions are described in the accompanying schedule of State findings and questioned costs as findings 06-03.

A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws and regulations that would be material in relation to one or more of the aforementioned requirements being examined may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over compliance would not necessarily disclose all matters in internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness. Additionally, the results of our procedures disclosed other deficiencies in internal control, 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 State findings and questioned costs as findings 06-02, 06-04, 06-05, 06-06, and 06-07. As required by the Audit Guide, immaterial findings relating to internal control deficiencies excluded from this report have been reported in a separate letter to your office.

Supplementary Information for State Compliance Purposes

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of each major fund, and the aggregate remaining fund information of the Illinois Finance Authority as of and for the year ended June 30, 2006, which collectively comprise the Illinois Finance Authority's basic financial statements, and have issued our report thereon dated December 7, 2006. 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 Illinois Finance Authority. The 2006 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 year ended June 30, 2006, taken as a whole. We have also previously audited, in accordance with auditing standards generally accepted in the United States, the Illinois Finance Authority's basic financial statements for the year ended June 30, 2005. In our report dated November 30, 2005, we expressed an unqualified opinion on the respective financial statements of each major fund, and the aggregate remaining fund information. In our opinion, the 2005 Supplementary Information for State Compliance Purposes, except for the portion marked "unaudited" is fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2005, 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, and Authority management, and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

Schaumburg, Illinois
December 7, 2006

McGladrey & Pullen

Certified Public Accountants

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

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of each major fund and the aggregate remaining fund information of the State of Illinois, Illinois Finance Authority (Authority), as of and for the year ended June 30, 2006, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated December 7, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted certain deficiencies in the design or operation of internal control over financial reporting which do not meet the criteria for reporting herein and which are reported as State compliance findings in the schedule of findings. We also noted certain immaterial instances of internal control deficiencies which we have reported to management of the Authority in a separate letter dated December 7, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain matters which are reported as State compliance findings in the schedule of findings. We also noted certain other matters which we have reported to management of the Illinois Finance Authority in a separate letter dated December 7, 2006.

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

McGladrey & Pullen, LLP

Schaumburg, Illinois
December 7, 2006

Current Findings – State Compliance

Finding # 06 – 01 Noncompliance with the Personnel Code – Incentive Based Compensation

The Authority paid \$289,149 in incentive compensation pay during fiscal year 2006 to 25 employees based on an Incentive Based Compensation Plan that is not allowable under the Personnel Code.

The Authority made payments to 25 employees based on the Authority's Incentive Based Compensation Plan. The Incentive Based Compensation Plan is calculated based on individual performance and the Authority's performance. The Plan's administrative policies contain a schedule of ranges and percentages for determining the incentive pay. The Authority paid a total of \$289,149 for fiscal year ended June 30, 2006 to 25 eligible employees according to the Incentive Plan.

The Personnel Code "Increases in Pay" (80 Ill. Adm. Code 310.80) establishes the guidelines for increasing an employees pay. Approved methods include a satisfactory performance increase, a superior performance increase, promotion and reallocation, reevaluation and adjustments that require the prior approval of the Director of Central Management Services (DCMS). There was no provision in the Personnel Code during the period under examination for the payment of incentive pay or bonuses.

Management indicated the Authority has a legal opinion that the Illinois Finance Authority is exempt from the Personnel Code, therefore, allowing the Incentive Based Compensation Plan. Management further stated that during the current fiscal year they have used outside legal counsel to continue to research the issue and had not yet sought an opinion from the Attorney General as they had indicated they would do in response to the prior year's finding.

Incentive based payments contravene the guidelines for pay increases mandated in the Personnel Code. (Finding Code No. 06 - 01; 05 - 02)

Recommendation

We continue to recommend that the Authority conform its personnel practices to governing law and seek an opinion from the Attorney General to determine if they are exempt from the Personnel Code.

Authority Response

The Authority accepts the auditor's recommendation but does not accept the finding. The Illinois Finance Authority Act, 20 ILCS 3501/801-1, exempts the Authority from the Personnel Code because it requires the Authority the power to establish its own system of personnel administration. The Act requires that the Authority "employ agents and employees and independent contractors necessary to carry out its purposes and fix their compensation, benefits, and terms and conditions of their employment." Under the express language of the Personnel Code, "all offices and positions of employment in the service of the State of Illinois shall be subject to the provisions of the Act unless exempted in this or any other Act." Per the requirements of the Illinois Finance Authority Act, the Authority has established a system of personnel administration and the Authority does not participate in the State's pension retirement, health care, and other State employee benefits. The Authority bases its opinion on a 2004 legal opinion which reviewed the Act, the State Personnel Code, and case studies, and concluded that the Personnel Code did not apply to the Authority, therefore allowing for its own system of personnel administration, including a performance based incentive compensation program. In accordance with the auditor's recommendations, the Authority sent a letter dated February 08, 2007 to the Attorney General's Office regarding the applicability of the Personnel Code to the Authority. The Authority is presently waiting for a response to this letter.

State of Illinois
Illinois Finance Authority

Compliance Examination
For the Year Ended June 30, 2006

Current Findings – State Compliance

Finding # 06 – 01 Noncompliance with the Personnel Code – Incentive Based Compensation (Continued)

Auditors' Comment

The auditors continue to believe that absent specific exemption in either the Illinois Finance Act or the Personnel Code, all positions of employment in the service of the State of Illinois are subject to the provisions of the Personnel Code (20 ILCS 415/4).

In its response letter dated April 26, 2006 to the fiscal year 2005 finding on this same issue, the Authority indicated that it would seek an opinion from the Attorney General regarding the applicability of the Personnel Code to the Authority. The letter sent February 8, 2007 referenced in the Authority's response does **not** seek such an opinion, but rather requests information from the Attorney General on the process necessary to seek an opinion.

Current Findings – State Compliance

Finding #06 – 02 Failure to Report Revenue Bond Information to the Illinois Office of the Comptroller

The Authority did not report required revenue bond information to the Illinois Office of the Comptroller (Comptroller).

During the fiscal year ended June 30, 2006, there were 803 conduit debt bonds with a total principal balance outstanding of \$20.9 billion that were in the care of the Authority.

We examined the Comptroller's report of delinquent notices of principal and interest payments dated August 31, 2006. The report indicated that there were approximately 1300 delinquent notices of principal and interest payments. The Authority also receives the same notices of principal and interest payments from the bond trustees that are filed with the Comptroller. The Authority's records indicated approximately 12 delinquent notices of principal and interest payments. We were unable to determine which records were accurate.

Section 31.30.10 of the Statewide Accounting Management System (SAMS) requires that a copy of the prospectus and maturity schedule be submitted by the agency that issued the revenue bonds within 30 days subsequent to the closing date, or the beginning date of borrowing, whichever is later, to the Comptroller. In addition, section 31.30.20 of the SAMS manual requires a Notice of Payment to be submitted within 30 days from the date the voucher is processed for payment, or within 15 days from the Agency's receipt of the trustee's monthly statement.

Management indicated that they have had numerous communications with the Comptroller in order to eliminate the inconsistencies between the Comptroller's reports and the Authority's reports.

By not providing information on new revenue bonds issued and the dates and amounts of principal payments made to the Comptroller, it inhibits the Comptroller from performing its responsibilities to record and monitor State debt. (Finding Code No. 06 – 02; 05 – 03)

Recommendation

We recommend the Authority continue to work with the Comptroller's Office to comply with SAMS Procedures for bond reporting requirements with the Comptroller.

Authority Response

The Authority accepts the recommendation. The Authority will continue to work with the Comptroller's Office to eliminate discrepancies between the Comptroller's Reports and the IFA Reports.

Current Findings – State Compliance

Finding # 06 – 03 Missing and Incomplete Documents in State Guaranteed Agriculture Loans.

The Authority did not have all required documents for State Guaranteed Agriculture Loans.

We examined the loan files of all fiscal year 2006 state agricultural guaranteed loans and noted the following exceptions:

- 2 out of 13 (15%) state guaranteed loans totaling \$568,850 for existing farmer debt did not have a lender and borrower application on file;
- 1 out of 5 (20%) state guaranteed loans totaling \$425,000 for specialized livestock did not have lender and borrower applications on file;
- 1 out of 5 (20%) state guaranteed loans for specialized livestock did not pay the \$300 application fee to the Authority;
- 1 out of 5 (20%) state guaranteed loans totaling \$212,500 for specialized livestock had a loan duration of 25 years, which exceeded the statutory requirement of 15 years.

State statute (20 ILCS 3501/830) lists the various requirements for state guaranteed agriculture loans, which includes, but is not limited to, duration of loan term, application form requirement, application fee to be paid, and financial statements to be provided.

Management indicated that proper documentation procedures were not followed in file closings.

Incomplete or missing documents may result in improper approval of state guaranteed loans to under qualified applicants. In the event of default by the borrower, the State is liable for 85% of the outstanding principal and interest on the defaulted loan less any recoveries from the sale of collateral. (Finding Code No. 06-03)

Recommendation

We recommend the Authority strengthen its controls over the agricultural loan approval process.

Authority Response

The Authority accepts the recommendation. The Authority has strengthened its controls over the Agriculture loan files by implementing a file checklist to help ensure that all files are complete at closing.

Current Findings – State Compliance

Finding # 06 – 04 Contract Not Executed Timely

The Authority did not timely execute a contract or timely file an emergency purchase affidavit for legal services totaling \$807,470 procured under the emergency purchase exception.

Based on our review of emergency purchases procured by the Authority, we noted that the Authority had one emergency purchase contract for legal services that dated from June 10, 2005 through June 9, 2006 with an actual cost totaling \$807,470. The original emergency purchase affidavit was filed on September 7, 2005 with the Office of the Auditor General, 79 days late. The emergency purchase affidavit stated that the emergency purchase of legal services was made due to the unexpected resignation of its General Counsel on June 9, 2005 and the Authority estimated the total cost to be \$165,000. The law firm procured on an emergency basis began work without a contract on June 10, 2005. The Authority reduced the contract to writing on October 18, 2005, 130 days after services began.

For professional and artistic contracts exceeding \$5,000, the Illinois Procurement Code (30 ILCS 500/20-80(d)) states that if the contract was not reduced to writing and filed with the Comptroller before the services were performed, the agency must file a written contract with the Comptroller along with an affidavit stating that “the services for which payment is being made were agreed to before commencement of the services and setting forth an explanation of why the contract was not reduced to writing before the services commenced.” No “Professional or Artistic Services Affidavit” (SAMS Procedure 15.20.30) was filed with the Comptroller for this contract.

In addition, when making purchases using the emergency purchase exception, the Procurement Code (30 ILCS 500/20-30(c)) requires “A purchasing agency making a procurement under this Section shall file affidavits with the chief procurement officer and the Auditor General within 10 days after the procurement setting forth the amount expended, the name of the contractor involved, and the conditions and circumstances requiring the emergency procurement.”

Management stated they did not reduce the contract to writing or file the emergency purchase affidavit timely because they originally believed the legal services procured would be limited to “routine” matters all within the purview of the vendor’s role under a separate contract for “Issuer’s counsel”, but the Authority later discovered the scope of its legal services needs was much greater than they had anticipated. Agency officials stated that these are the same reasons the original cost estimate filed with the emergency purchase affidavit differed so greatly from the actual cost incurred under the contract.

Failure to execute contracts or file emergency purchase affidavits in a timely manner could compromise the oversight of the Authority and its public accountability. Significant work could be performed and costs incurred before the public is made aware of the specifics of the contract. Allowing a vendor to represent the State’s interest without a signed contract may also expose the State to potential liability. (Finding Code No. 06-04)

Recommendation

We recommend the Authority comply with the Procurement Code and take the necessary steps to improve the timeliness of reducing contracts to writing and filing emergency purchase affidavits.

State of Illinois
Illinois Finance Authority

Compliance Examination
For the Year Ended June 30, 2006

Current Findings – State Compliance

Finding # 06 – 04 Contract Not Executed Timely (continued)

Authority Response

The Authority accepts the recommendation. The Authority will comply with the Procurement Code and take the necessary steps to improve the timeliness of reducing contracts to writing and filing emergency purchase affidavits.

Current Findings – State Compliance

Finding # 06 – 05 Approval of Incomplete Travel and Marketing Reimbursement Forms

The Authority approved and reimbursed incomplete travel and marketing reimbursement forms.

During our detailed testing of 32 vouchers totaling \$45,128 for travel and marketing expenses, we noted the following exceptions:

- 8 vouchers (25%) totaling \$639 did not include an itemized receipt for meals, thus, claims for non-reimbursable expenses could not be determined. Auditors were unable to determine whether these reimbursement requests were for travel or for marketing expenses.
- 2 vouchers (6%) totaling \$538 were approved for reimbursement of cell phone charges. We noted the Authority paid the entire cell phone bill including the regular monthly fee without any supporting documents for the detail calls.

During our detailed testing of 30 vouchers totaling \$16,321 for marketing expenses, we noted the following exceptions:

- 1 voucher (3%) for \$502 was submitted and reimbursed twice.
- 3 vouchers (10%) totaling \$1,267 were mathematically inaccurate by \$11.

We also noted that the Authority processes both travel and marketing expense reimbursements on the same form and charges these expenses to the same general ledger account in the books and records of the Authority. The design of the form makes it difficult to distinguish whether the employee is seeking reimbursement for travel expenses or marketing expenses. Marketing expenses are subject to the Authority's internal policy outlining the allowable expenses reimbursable as marketing expenses. For example, some meal expenses are allowable at a slightly higher rate for business development (marketing) breakfast or luncheons. This policy differs from the Governor's Travel Control Board Regulations (80 Ill. Adm. Code 2800) outlining allowable travel expense reimbursements.

Authority policy requires that employees requesting reimbursement for travel and marketing expenses submit an itemized and complete expense report (Policy 50.50.001). Good internal control procedures would require more careful examination of travel and marketing reimbursement forms to avoid duplicate reimbursements and reimbursements without proper supporting documentation. In addition, good internal control procedures require that reimbursement forms and general ledger accounting clearly distinguish between reimbursements for travel expenses and marketing expenses.

Management stated that these exceptions were due to oversight.

By not properly designing travel and marketing expense reimbursement forms and by not properly reviewing the forms and supporting documents for employee travel and marketing expense reimbursements, the Authority may be reimbursing unauthorized expenses. By not separately tracking travel and marketing expenses in the general ledger, it diminishes managements' ability to oversee these expenses. (Finding Code No. 06-05)

Current Findings – State Compliance

Finding # 06 – 05 Approval of Incomplete and Inaccurate Travel and Marketing Reimbursement Forms (continued)

Recommendation

We recommend the Authority redesign the travel and marketing expense reimbursement form to clearly distinguish whether the reimbursement request is for travel or for marketing expenses. Further, the Authority should more carefully review employee travel and marketing expense reimbursement forms for proper documentation, mathematical accuracy and duplicate payment prior to approval of the reimbursement claim. We also recommend that the Authority separately track travel and marketing expenses in its general ledger.

Authority Response

The Authority accepts the recommendation. Authority will redesign the travel and marketing expense reimbursement form to clearly distinguish whether the reimbursement request is for travel or for marketing expenses. Further, the Authority will carefully review employee travel and marketing expense reimbursement forms for proper documentation, mathematical accuracy and duplicate payment prior to approval of the reimbursement claim. The Authority will separately track travel and marketing expenses on the general ledger system.

Current Findings – State Compliance

Finding # 06 – 06 Inadequate Processing and Untimely Deposit of Cash Receipts and Refunds

The Authority did not adequately process or timely deposit cash receipts or refunds.

During our detailed testing, we selected 25 cash receipts and noted the following exceptions:

- 5 out of 25 receipts (20%) totaling \$24,464 were not deposited timely. On average, these receipts were deposited 6 days late by the Authority.
- 5 out of 25 receipts (20%) totaling \$111,877 were not date stamped. Therefore, we could not determine the date the Authority received the cash or if the cash was deposited timely.

During our detailed testing of all cash refunds received by the Authority, we noted the following:

- 5 out of 10 (50%) refunds totaling \$1,206 were not deposited timely. On average, these were deposited 7 days late by the Authority.

The State Officers and Employees Money Disposition Act (30 ILCS 230/2) requires moneys be deposited on the same day of physical receipt if the amount of any one single item exceeds \$10,000, within 24 hours of physical receipt if the aggregate amount of items exceed \$10,000, and within 48 hours for physical receipt of items with the aggregate amount of \$500 to \$10,000. In addition, the statute requires every agency to keep in proper books a detailed itemized account of all moneys received for or on behalf of the State of Illinois, showing the date of receipt, the payer, the purpose, and the amount of the receipt.

Management stated the late deposits and lack of a date stamp were due an administrative oversight.

Failure to comply with statutory requirements for depositing cash receipts and refunds could result in the loss or misappropriation of cash. (Finding Code No. 06 – 06)

Recommendation

We recommend that the Authority strengthen its controls over the processing and of cash receipts and refunds and timely deposit receipts and refunds in accordance with statutory requirements.

Authority Response

The Authority accepts the recommendation. The Authority has strengthened its controls over the processing and of cash receipts and refunds and timely deposit receipts and refunds in accordance with statutory requirements.

Current Findings - State Compliance

Finding # 06 – 07 Missing Documents from Personnel File

The Authority's personnel files lacked required documents.

During our sample testing of 33 employee files we noted the following:

- 2 out of 33 employees (6%) had no job description included.
- 1 out of 33 employees (3%) had a missing Educational Loan Certification.
- 1 out of 33 employees (3%) did not have a properly completed Direct Deposit Authorization form. However, the employee received direct deposit of their salary.
- 1 out of 33 employees (3%) did not have written documentation of Director's approval for flexible working hours of 6:30 am to 4:30 pm.

The Educational Loan Default Act (Act) (5 ILCS 385/2) states that any employee of a State agency who is in default status on the repayment of any educational loan for a period of 6 months or more and in an amount of \$600 or more shall, as a condition of employment make a satisfactory loan repayment arrangement with the maker or guarantor of the loan. Good business practice mandates maintenance of adequate personnel records to support that no loan repayment arrangement is necessary for student loan defaults required under this Act.

According to the Authority Human Resource Manual, flexible hours must be submitted in writing and effective upon the Director's written approval and employees must complete and sign a direct deposit form to authorize direct deposit of their paychecks. Established business practices would require the documentation of job descriptions. Without documented job descriptions, there is no formal documentation of the employees' duties.

Management stated that missing documents were due to oversight.

The lack of documented job descriptions could lead to a lack of an objective system to ascertain whether employees are performing duties as required. It also could lead to material duplication of work, overstaffing, work backlogs, or understaffing in agency operations. The lack of adequate documentation of educational loan certificates could result in employing persons in loan default who have not made loan repayment arrangements as required by the Act. (Finding Code No. 06 – 07)

Recommendation

We recommend the Authority review personnel files and obtain or replace any missing documents from employees' personnel records. In addition, the Authority should implement controls to ensure that the proper forms and documentation are maintained in personnel files.

Authority Response

The Authority accepts the recommendation. The Authority has reviewed personnel files and obtained or replaced any missing documents from employees' personnel records. In addition, the Authority has implemented controls to ensure that the proper forms and documentation are maintained in personnel files.

State of Illinois
Illinois Finance Authority

Compliance Examination
For the Year Ended June 30, 2006

Prior Findings Not Repeated – *Government Auditing Standards*

Finding #06 –08 Noncompliance with the State Officers and Employees Money Disposition Act

The Illinois Finance Authority (Authority) did not have sufficient collateralization for cash deposits held at three financial institutions.

The Authority had uncollateralized cash deposits of \$1,324,659 at three financial institutions as of June 30, 2005. (Finding Code No. 05-01)

The Authority has implemented a monthly review process to help ensure that proper collateral levels are maintained in compliance with applicable requirements. Our sample testing did not disclose uncollateralized deposits at June 30, 2006.

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Illinois Finance Authority

Compliance Examination
For the Year Ended June 30, 2006

Prior Findings Not Repeated – State Compliance

Finding #06-09 Noncompliance with the Illinois Procurement Code and Statewide Accounting Management System (SAMS) Procedures

The Authority did not have adequate procedures in place to ensure compliance with the Illinois Procurement Code and Statewide Management System (SAMS) Procedures relating to purchasing, contractual agreements and real estate lease agreements.

We found contracts had missing required contract content, contracts not filed with the Comptroller, contracts not competitively procured, contracts not published in the Procurement Bulletin, and contracts not including the required disclosures. We also found real estate leases not filed with the Comptroller and errors in the lease rate calculation. (Finding Code No. 05-04; 04-05)

Our sample testing did not disclose any significant compliance exceptions as those noted in the prior finding with the Illinois Procurement Code or SAMS contracting procedures.

Finding #06 – 10 Voucher Processing Controls Need to be Improved

The Authority did not have adequate controls in place to ensure all payment vouchers were processed in accordance with established procedures.

Auditors noted that numerous vouchers were not processed in accordance with the Illinois Administrative Code (74 Ill. Adm. Code 900.30) and the Illinois Finance Authority Accounting Policies and Procedures Manual (Procedure 50.30.000). (Finding Code No. 05-05; 04-06)

Our sample testing did not disclose any significant compliance exceptions as those noted in the prior finding with the Illinois Administrative Code (74 Ill. Adm. Code 900.30) and the Illinois Finance Authority (Authority) Accounting Policies and Procedures Manual (Procedure 50.30.000).

Finding # 06 – 11 Untimely Submission of Quarterly State Property Records with the Illinois Office of the Comptroller

The Authority failed to timely file the quarterly Agency Report of State Property (Form C-15) with the Illinois Office of the Comptroller. The Authority filed Form C-15 for quarter ended September 30, 2004 86 days late. (Finding Code No. 05 – 06)

We noted the Authority has implemented procedures to ensure timely submission of the reports. We examined the filing of the four Form C-15's for fiscal year 2006 and determined that all Form C-15 were filed on time with the Comptroller.

Finding # 06 – 12 Untimely Submission of Receipt Deposit Transmittals with the Illinois Office of the Comptroller

The Authority failed to timely submit Receipt Deposit Transmittals (C-64 Forms) with the Illinois Office of the Comptroller.

The Authority submitted the C-64 Forms for September 2004 through March 2005 on April 26, 2005. (Finding Code No. 05-07)

Based on our sample testing of receipts, we noted that the Authority timely filed C-64 Forms with the Comptroller during fiscal year 2006.

Prior Findings Not Repeated – State Compliance

Finding # 06 – 13 Noncompliance with Printing Requirements of the Procurement Code

The Authority failed to comply with the printing requirements of the Procurement Code.

Auditors noted that numerous documents printed by the Authority did not contain the written acknowledgement of the authority to print by the State of Illinois and other information required by the Procurement Code. (Finding Code No. 05-08)

Based on our review of a sample of all publications printed by the Authority during fiscal year 2006, we noted that those publications contained the printing requirements of the Procurement Code.

Finding # 06 – 14 Lack of Interest Rate Risk and Credit Risk Policy

The Authority's Investment Policy does not specifically address two specific types of investment risk exposure.

Auditors noted that the Authority's' investment policy does not address interest rate risk or credit risk. (Finding Code No. 05-09)

Auditors noted that the Authority revised its Investment Policy to address interest rate risk and credit risk.

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 Schedule of Expenditures of Federal Awards
- Schedule of Appropriations, Expenditures and Lapsed Balances
- Comparative Schedule of Net Appropriations, Expenditures and Lapsed Balances
- Comparative Revenues and Expenses
- Schedule of Changes in State Property
- Reconciliation of Cash Receipts to Deposits Remitted
to the State Comptroller
- Analysis of Significant Variations in Expenses
- Analysis of Significant Variations in Revenues
- Analysis of Significant Account Balances
- Analysis of Accounts Receivable, Loans Receivable and
Fees Receivable
- Schedule of Cash Funds and Depositories
- Schedule of Investments
- Schedule of Contracts
- Schedule of Conduit Debt

Analysis of Operations

- Authority Functions and Planning Program
- Average Number of Employees
- Emergency Purchases
- Ten-Year Schedule of Jobs Created or Retained by Loans, Revenue
Bonds, and Investments Made by the Authority (Unaudited)
- Summary of Agriculture and Fire Truck Loan Programs:
 - Agricultural Development Bonds
 - State Guarantee Program for Restructuring Agricultural Debt
 - Farmer and Agri-Business Loan Guarantee Program
 - Young Farmer Loan Guarantee Program
 - Specialized Livestock Loan Guarantee Program
 - Fire Truck Revolving Loan Program
- Historical Summary of Agricultural Loans Issued by Program by County (Unaudited)
- Service Efforts and Accomplishments (Unaudited)

**State of Illinois
Illinois Finance Authority**

**Compliance Examination
For the Year Ended June 30, 2006**

The auditors' 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 Finance Authority

Compliance Examination
 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2006

Federal Grant / Program Title	Federal CFDA Number	Project Number	Program or Award Amount	Grant Proceeds	Program Loans Outstanding	Federal Portion of Interest / Other Income	Expenditures
U.S. Department of Commerce:							
Commerce and Economic Opportunity:							
Economic Adjustment Assistance							
Grant (Title IX)	11.011	06-19-01916	\$ 424,000	\$ -	\$ 91,484	\$ -	\$ -
U.S. Department of Agriculture:							
Section 538 Rural Rental							
Housing Guaranteed Loans	10.438	-	1,500,000	-	309,210	15,824	-
Total			<u>\$ 1,924,000</u>	<u>\$ -</u>	<u>\$ 400,694</u>	<u>\$ 15,824</u>	<u>\$ -</u>

See Notes to Schedule of Expenditures of Federal Awards.

Notes to Schedule of Expenditures of Federal Awards

Note 1 Organization

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

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

The Authority sponsors a variety of lending programs including direct lending and direct lending participation loans. The Authority also makes loans through its two federal programs, the Economic Development Administration (E.D.A.) Title IX Revolving Loan Program and the Rural Development Revolving Loan Program.

The Schedule of Expenditures of Federal Awards includes federal programs related to the following agencies:

U.S. Department of Commerce
U.S. Department of Agriculture

Note 2 Summary of Significant Accounting Policies

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.

The Schedule of Expenditures of Federal Awards is prepared using the accrual basis of accounting. Under the accrual basis of accounting, expenditures are recognized when incurred.

Terms of Agreements

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

The E.D.A. Title IX Restricted Revolving Loan Program provides low-cost supplemental financing to manufacturing companies located in areas declared eligible for Title IX assistance by the E.D.A. Loans under this program are up to \$100,000 for small and mid-sized manufacturers, and carry a fixed interest rate of 7.5% with maturity dates up to ten years. Total loans outstanding as of June 30, 2006 were \$91,484. The E.D.A. Title IX Restricted Revolving loans are fully reserved.

Notes to Schedule of Expenditures of Federal Awards (Continued)

Note 2 Summary of Significant Accounting Policies (Continued)

The Rural Development Revolving Loan Program

The Rural Development Revolving Loan Program participates with the Rural Development Administration's (the former Farmers Home Administrations') Intermediary Re-lending 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 \$150,000 of fixed asset costs at a 6% interest rate with maturity dates up to ten years. Total loans outstanding as of June 30, 2006 were \$309,210.

State of Illinois
 Illinois Finance Authority

Compliance Examination
 For the Year Ended June 30, 2006

Schedule of Appropriations, Expenditures and Lapsed Balances
 Appropriations for Fiscal Year 2006
 Fourteen Months Ended August 31, 2006

P.A. 94-0015	Appropriation (Net After Transfers)	Expenditures Through 06/30/06	Lapse Period Expenditures 07/01/06 to 08/31/06	Total Expenditures	Balances Reappropriated 07/01/2006
<u>Appropriated Funds</u>					
0572 - Fire Truck Revolving Loan Fund					
Loans to Fire Departments	\$ 4,932,057	\$ 4,287,686	\$ -	\$ 4,287,686	\$ 644,371
0971 - Build Illinois Bond Fund					
Transfers to Fire Truck Revolving Loan Fund	3,800,000	3,800,000	-	3,800,000	-
Total Fiscal Year 2006	\$ 8,732,057	\$ 8,087,686	\$ -	\$ 8,087,686	\$ 644,371

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

State of Illinois
 Illinois Finance Authority

Compliance Examination
 For the Year Ended June 30, 2006

Comparative Schedule of Net Appropriations, Expenditures and Lapsed Balances
 Years Ended June 30, 2006 and 2005

	2006 Public Act 94-0015	2005 Public Act 93-0842
0001 - General Revenue Fund		
Appropriations (Net of Transfers)	\$ -	\$ 240,000
<u>Expenditures</u>		
Interest Buy-Back Program	-	27,472
Total Expenditures	-	27,472
Lapsed Balances	\$ -	\$ 212,528
0572 - Fire Truck Revolving Loan Fund		
Appropriations (Net of Transfers)	\$ 4,932,057	\$ 10,000,000
<u>Expenditures</u>		
Loans to Fire Departments	4,287,686	5,067,943
Total Expenditures	4,287,686	5,067,943
Reappropriated Balances	\$ 644,371	\$ 4,932,057

State of Illinois
 Illinois Finance Authority

Compliance Examination
 For the Year Ended June 30, 2006

Comparative Schedule of Net Appropriations, Expenditures and Lapsed Balances
 Years Ended June 30, 2006 and 2005 (continued)

	2006 Public Act 94-0015	2005 Public Act 93-0842
0971 - Build Illinois Bond Fund		
Appropriations (Net of Transfers)	\$ 3,800,000	\$ 10,000,000
<u>Expenditures</u>		
Transfer to Fire Truck Revolving Loan Fund	3,800,000	6,200,000
Total Expenditures	3,800,000	6,200,000
Reappropriated Balances	\$ -	\$ 3,800,000
All Funds		
Appropriations (Net of Transfers)	\$ 8,732,057	\$ 20,240,000
Total Expenditures	8,087,686	11,295,415
Lapsed Balances	\$ -	\$ 212,528
Reappropriated Balances	\$ 644,371	\$ 8,732,057

Note: The Authority did not make efficiency initiative payments during the fiscal year ended 2006

State of Illinois
Illinois Finance Authority

Compliance Examination
For the Year Ended June 30, 2006

Comparative Schedule of Revenues and Expenses

	2006	2005	Increase (Decrease)	% Variance
Revenues				
Administrative service fees	\$ 4,370,470	\$ 4,977,492	\$ (607,022)	(12) %
Appropriations from State of Illinois	3,800,000	6,227,472	(2,427,472)	(39)
Interest on loans	3,591,255	3,084,364	506,891	16
Interest and investment income	2,600,275	1,732,317	867,958	50
Annual fees	1,299,441	1,747,670	(448,229)	(26)
Bad debt recoveries	129,106	7,616	121,490	1,595
Application fees	104,670	80,330	24,340	30
Appreciation (depreciation) in fair value of investments	80,163	(689,419)	769,582	112
Miscellaneous	75,182	209,123	(133,941)	(64)
Total Revenues	16,050,562	17,376,965	(1,326,403)	(8)
Expenses				
Interest expense	3,088,416	3,089,751	(1,335)	-
Employee related expenses	3,030,627	3,169,979	(139,352)	(4)
Professional services	1,782,438	1,173,012	609,426	52
Occupancy costs	416,752	435,125	(18,373)	(4)
Loan loss provision	374,089	241,137	132,952	55
General and administrative	360,577	485,295	(124,718)	(26)
Depreciation	33,909	18,425	15,484	84
Interest buy-back expense	-	27,472	(27,472)	(100)
Total Expenses	9,086,808	8,640,196	446,612	5
Excess of Revenues over Expenses	\$ 6,963,754	\$ 8,736,769	\$ (1,773,015)	(20) %

State of Illinois
 Illinois Finance Authority

Compliance Examination
 For the Year Ended June 30, 2006

Schedule of Changes in State Property

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Cost				
Capital Assets Being Depreciated:				
Leasehold Improvements	\$ 2,000	\$ -	\$ -	\$ 2,000
Furniture and Equipment	179,520	27,642	(3,298)	203,864
Computers and Software	100,801	84,738	(17,413)	168,126
Total Capital Assets Being Depreciated	<u>282,321</u>	<u>112,380</u>	<u>(20,711)</u>	<u>373,990</u>
Accumulated Depreciation				
Leasehold Improvements	2,000	-	-	2,000
Furniture and Equipment	147,673	12,058	(3,298)	156,433
Computers and Software	61,449	21,851	(17,413)	65,887
Total Accumulated Depreciation	<u>211,122</u>	<u>33,909</u>	<u>(20,711)</u>	<u>224,320</u>
Capital Assets, Net of Accumulated Depreciation	<u>\$ 71,199</u>	<u>\$ 78,471</u>	<u>\$ -</u>	<u>\$ 149,670</u>

State of Illinois
Illinois Finance Authority

Compliance Examination
For the Year Ended June 30, 2006

Reconciliation of Cash Receipts to Deposits Remitted to the State Comptroller

Illinois Farmer and Agri-Business Loan Guarantee Fund #205

Repayment of loan guarantees	\$ 193,481
Cash Receipts per Agency Records	193,481
Add cash in transit, beginning of period	-
Less cash in transit, end of period	-
Deposits Remitted to the Comptroller	<u>\$ 193,481</u>

Fire Truck Revolving Loan Fund #572

Transfer from Build Illinois Bond Fund	\$ 3,800,000
Repayment of loans	589,333
Cash Receipts per Agency Records	4,389,333
Add cash in transit, beginning of period	-
Less cash in transit, end of period	-
Deposits Remitted to the Comptroller	<u>\$ 4,389,333</u>

Illinois Agricultural Loan Guarantee Fund #994

Repayment of loan guarantees	\$ 20,704
Cash Receipts per Agency Records	20,704
Add cash in transit, beginning of period	-
Less cash in transit, end of period	-
Deposits Remitted to the Comptroller	<u>\$ 20,704</u>

State of Illinois
 Illinois Finance Authority

Compliance Examination
 For the Year Ended June 30, 2006

Analysis of Significant Variations in Expenses

	*	*			
	June 30, 2006	June 30, 2005	Increase (Decrease)	%	Explanation of Significant Variations (Variance of 20% and \$100,000 or more)
Professional services	\$ 1,782,438	\$ 1,173,012	\$ 609,426	52 %	Increase due to Legal fees involving FOIA, increase in bond transactions and General Counsel.
General and administrative	360,577	485,295	(124,718)	(26)	Decrease due to a settlement payment being made to the IRS in fiscal year 2005 to settle tax issues related to tax exempt bonds issued by one of the predecessor agencies.
Loan loss provision	374,089	241,137	132,952	55	Increase due to increase in our Participation Loan Portfolio.

* Information obtained from the Comparative Schedule of Revenues and Expenses

State of Illinois
Illinois Finance Authority

Compliance Examination
For the Year Ended June 30, 2006

Analysis of Significant Variations in Revenues

	*	*			
	June 30, 2006	June 30, 2005	Increase (Decrease)	%	Explanation of Significant Variations (Variance of 20% and \$100,000 or more)
Annual fees	\$ 1,299,441	\$ 1,747,670	\$ (448,229)	(26)	% Decrease is due to a change in billing in our Annual fees for FY05. Annual fees were billed in arrears from the predecessor Authority.
Bad debt recoveries	129,106	7,616	121,490	1,595	Increase is due to the disposition of collateral being greater than anticipated in the guarantee funds.
Miscellaneous	75,182	209,123	(133,941)	(64)	Decrease is caused by a decrease in the recognition of deferred revenue.
Appropriations from State of Illinois	3,800,000	6,227,472	(2,427,472)	(39)	Decrease due to a reduction in appropriations received by State of Illinois to fund Fire Truck Revolving Loan Fund.
Interest and investment income	2,600,275	1,732,317	867,958	50	Increase is due to the increase in interest rates.
Appreciation (depreciation) in fair value of investments	80,163	(689,419)	769,582	112	The increase is due to a good market for investments in which there was an increase in the unrealized gains of investments.

* Information obtained from the Comparative Schedule of Revenues and Expenses

State of Illinois
 Illinois Finance Authority

Compliance Examination
 For the Year Ended June 30, 2006

Analysis of Significant Account Balances

Following are the account balances with significant change (greater than \$2 million) between June 30, 2005 and June 30, 2006.

	June 30, 2006	June 30, 2005	Increase (Decrease)	% Variance	Analysis of Significant Change
Assets					
Receivables, net	\$ 83,920,129	\$ 80,012,862	\$ 3,907,267	5	% Increase due to additional participation loans, and additional loans to local fire departments from the additional funding for the Fire Truck Revolving Loan Program.
Liabilities					
Long-term debt	60,977,906	64,677,209	(3,699,303)	(6)	Bonds redeemed per sinking fund requirements and early extinguishment of debt.

State of Illinois
Illinois Finance Authority

Compliance Examination
For the Year Ended June 30, 2006

Analysis of Accounts Receivable

The Authority's past-due accounts receivable at June 30, 2006 totaled \$124,392. The Authority recorded an allowance for doubtful accounts of \$826. An aging of the past-due accounts receivable by number of days is as follows:

<u>1 - 30 Days</u>	<u>31 - 90 Days</u>	<u>91 - 180 Days</u>	<u>Over 180 Days</u>
\$107,871	\$0	\$521	\$ 16,000

The Authority used private collection services to collect delinquent receivable balances.

Analysis of Loans Receivable

The Authority's past-due loans receivable at June 30, 2006 totaled \$1,480,320. The Authority recorded an allowance for doubtful accounts of \$73,294. An aging of the past-due loans receivable by number of days is as follows:

<u>1 - 30 Days</u>	<u>31 - 90 Days</u>	<u>91 - 180 Days</u>	<u>Over 180 Days</u>
\$14,433	\$0	\$0	\$1,465,887

The Authority used private collection services to collect delinquent receivable balances.

Analysis of Fees Receivable

The Authority's past-due fees receivable at June 30, 2006 totaled \$241,060. The Authority recorded an allowance for doubtful accounts of \$187,273. An aging of the past-due fees receivable by number of days is as follows:

<u>1 - 30 Days</u>	<u>31 - 90 Days</u>	<u>91 - 180 Days</u>	<u>Over 180 Days</u>
\$53,787	\$0	\$42,706	\$144,567

The Authority used private collection services to collect delinquent receivable balances.

State of Illinois
Illinois Finance Authority

Compliance Examination
For the Year Ended June 30, 2006

Schedule of Cash Funds and Depositories

General Operating Fund:

Banterra Bank of Marion, Illinois - Money Market	\$	299,507
LaSalle Bank in Chicago, Illinois		134,322
Morgan Stanley – Money Market		127,217
Fifth Third Inst MMKT Preferred		498,762
The Illinois Funds – Money Market		6,805,621
The Illinois Funds – Prime Fund		2,307,222
Banterra Bank of Marion, Illinois – Money Market		43,135

Industrial Revenue Bond Insurance Fund:

Banterra Bank of Marion, Illinois – Money Market		2,801,815
JP Morgan in Chicago, Illinois - Prime Money Market Fund		1,670,667
The Illinois Funds – Money Market		6,855,236

Credit Enhancement Fund:

JP Morgan in Chicago, Illinois – Money Market		2,947
JP Morgan in Chicago, Illinois – Money Market		201,403
ABN AMRO Government Money Market		600,000
CEFCU		500,000
Federated Government Obligations - Tax Managed		53,000

E.D.A. Title IX Restricted Revolving Loan Fund:

Banterra Bank of Marion, Illinois – Savings		742,719
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Rural Development Revolving Loan Fund:

Banterra Bank of Marion, Illinois – Money Market		2,072,445
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Illinois Rural Bond Bank General Fund Trust Fund:

The Illinois Funds – Money Market		432,661
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State of Illinois
Illinois Finance Authority

Compliance Examination
June 30, 2006

Schedule of Cash Funds and Depositories (Continued)

Illinois Agricultural Loan Guarantee Fund:

Illinois Treasurer's - Cash \$ 10,492,508

Bond Fund:

US Bank in Minneapolis, Minnesota - Money Market 18,903

First American Treasury Obligations Fund 601,839

Short-Term Investments Treasury 11,902

Illinois Farmer Agribusiness Loan Guarantee Fund:

Illinois Treasurer's - Cash 7,901,992

Illinois Housing Partnership Program Fund:

The Illinois Funds - Money Market 823,794

IRBB Special Reserve Fund:

The Illinois Funds - Prime Fund 2,576,125

The Illinois Funds - Money Market 5,943

Fire Truck Revolving Loan Fund:

Illinois Treasurer's - Cash 1,338,493

\$ 49,920,178

State of Illinois
 Illinois Finance Authority

Compliance Examination
 For the Year Ended June 30, 2006

Schedule of Investments

Description	Type	Interest Rate	Maturity Date	Recorded Value June 30, 2006
General Operating Fund:				
LaSalle Bank	Certificate of Deposit	4.67%	06/22/2007	\$ 85,000
Morgan Stanley – Government Securities	Pooled Investment			1,225,439
Peoples National Bank of Pana	Certificate of Deposit	4.25%	07/07/2006	1,000,000
Peoples National Bank	Certificate of Deposit	5.26%	09/06/2006	100,000
Warren-Boynton State Bank	Certificate of Deposit	5.00%	08/09/2007	100,000
Corn Belt Bank	Certificate of Deposit	5.00%	08/09/2007	100,000
Chapin State Bank	Certificate of Deposit	4.25%	03/14/2008	100,000
BankOrion	Certificate of Deposit	4.12%	03/14/2008	100,000
State Bank of Lincoln	Certificate of Deposit	4.01%	03/14/2008	100,000
Wemple State Bank	Certificate of Deposit	4.00%	03/14/2008	100,000
Venture Investment Fund:				
Champaign-Urbana Fund	Venture Capital			77,852
Clearstack	Venture Capital			450,000
Firefly Energy, Inc.	Venture Capital			975,000
Forest One	Venture Capital			160,000
Harmonic Vision	Venture Capital			261,000
Jaros Technologies Corporation	Venture Capital			250,000
Illinois Arch Fund Partnership	Venture Capital			150,032
Influx, Inc. (now Protez Pharmaceuticals)	Venture Capital			148,500
Metalconforming Controls	Venture Capital			575,000
Mobitrac	Venture Capital			265,644
Moire, Inc.	Venture Capital			300,000
Nephrx	Venture Capital			110,000
Neuronautics	Venture Capital			300,000
Open Channel Software	Venture Capital			250,000
Smart Signal	Venture Capital			293,848
Stonewater Software	Venture Capital			4,759
Video Home Tour	Venture Capital			250,000
Zuchem, Inc.	Venture Capital			543,100
Bond Fund:				
US Bank in Minneapolis, Minnesota	Pooled Investment			8,507,168
				\$ 16,882,342

State of Illinois
 Illinois Finance Authority

For the Year Ended June 30, 2006

Schedule of Contracts

Contractor	Services Provided	Total Expenses Incurred
ADP Total Source	Payroll and HR	\$ 183,741
Jamie McGovern	Agricultural Database Project	1,600
Anne M. Donahoe	Financial Advisor - Extension	24,710
Anthes, Pruyn & Associates	Accounting Services	42,004
Blackwell Consulting	Computer Consulting	5,850
CBIZ Information Systems	Loan & Bond System	58,158
CCC Technolgies, Inc.	Phone Console System	7,877
Chapman and Cutler	Legal	639
Chicago Office Technology Group	Copier Maintenance	3,668
Crowe Chizek	Professional - Accounting	16,711
Distant Horizon	Website Services	1,140
DLS Internet Services	Chicago Internet Access	5,735
Dykema Gossett Law Offices	Legal	37,128
Gannarelli Graphics	Professional - Marketing	12,970
Gordon & Glickson LLC	Legal	13,370
Harper Graphics	Professional - Marketing	9,133
Howard Kenner Governmental Consulting	Professional - Consulting	54,500
Innovations, Ltd. (ACT & IT Services)	Act Purchase & Services	8,950
Sheldon Keyser	Professional - Consulting	1,150
Klatt Employmnet Services	Temp Service	2,479
Koch, Kristina S.	Legal - Lobbying Services	19,750
Livingstone Communications	Professional - Marketing	18,589
Kutchins Robbins & Diamond	Valuation of Venture Cap. Fund	9,250
Laner Muchin-IFA 457 Plan	Legal	19,026
Mayer, Brown, Rowe & Maw LLP	Legal	8,378
Mt Vernon -Swanson Property Mgmt.	Lease	3,483
Kirkpatrick, Pettis, Smith, Polian Inc.	Professional - Finanical Advisory	96,000
Nimlok Chicago	Professional - Marketing	1,560
Paetec Communications	Communications	18,019
Protis	Exec. Recruitment Service	49,994
Rider Dickerson, Inc.	Professional - Marketing	21,310
Schiff Hardin & Waite	Legal	126,279
Shefsky & Froelich Ltd.	Legal	609,372
Sterling Network	Professional - Network	16,232
Shorenstien Realty Services L.P.	Office Rent - Chicago	166,231
Southern Illinois University	Office Rent - Carbondale	4,235
Stern Bros. Renewable Energy Finance	Market Research Consultant	10,000
The Heartland Partnership	Office Rent - Peoria	4,907
Wildman, Harrold, Allen & Dixon LLP	Legal	155
	Total	\$ 1,694,283

State of Illinois
 Illinois Finance Authority

Compliance Examination
 For the Year Ended June 30, 2006

Schedule of Conduit Debt

	Principal Outstanding	Number of Issues Outstanding
Illinois Finance Authority		
Revenue Bonds	\$ 5,767,110,000	139
Notes	93,397,000	12
Total Illinois Finance Authority	<u>5,860,507,000</u>	
Predecessor Authorities		
Illinois Development Finance Authority		
Total 501(c)3 Not-for-Profit Bonds and Leases	2,666,369,000	153
Total Environmental Bonds	1,318,085,000	32
Total Clean Water State Revolving Fund	120,535,000	1
Total Industrial Revenue Bonds	855,971,000	134
Total Infrastructure Bonds	763,045,000	47
Total Housing Bonds	215,339,000	17
Total Leases, Notes and Certificates of Participation	33,328,000	5
Total Distressed Bonds	8,640,000	1
Total Illinois Development Finance Authority	<u>5,981,312,000</u>	
Illinois Health Facilities Authority	6,435,464,000	155
Illinois Educational Facilities Authority	2,543,597,000	70
Illinois Farm Development Authority	84,426,000	33
Illinois Rural Bond Bank	14,570,000	4
Total Predecessor Authorities	<u>15,059,369,000</u>	
Grand Total Illinois Finance Authority	<u>\$ 20,919,876,000</u>	<u>803</u>

**State of Illinois
Illinois Finance Authority**

**Compliance Examination
For the Year Ended June 30, 2006**

Authority Functions and Planning Program

The Authority maintains offices at 180 North Stetson Avenue, Suite 2555, Chicago, Illinois 60601; 427 E. Monroe Street, Suite 202, Springfield, Illinois 62701; 150 E. Pleasant Hill Road, Carbondale, Illinois 62901; 124 SW Adams Street, Suite 300, Peoria, Illinois 61602; and 2929 Broadway St, # 7B, Mt. Vernon, Illinois 62864. The Authority's Board consists of 15 members (below), appointed by the Governor, and Ms. Jill Rendleman, Interim Executive Director.

Following are the Members of the Board of Directors:

1. David C. Gustman, Chairman
2. Demetris A. Giannoulis
3. Michael Goetz
4. Dr. Roger D. Herrin
5. Edward H. Leonard Sr.
6. Martin Nesbitt
7. Terance M. O'Brien
8. Andrew W. Rice
9. Joseph P. Valenti
10. James Fuentes
11. Magda Boyles
12. Bradley A. Zeller
13. Juan B. Rivera
14. Ronald E. DeNard
15. Lynn F. Talbot

Functions

The Authority was created by the Illinois Finance Authority Act, (20 ILCS 3501 et. seq.) effective January 1, 2004. Pursuant to the Act, the Authority's objectives are to:

1. Retain jobs in Illinois by assisting existing businesses considering relocation or plant expansion in obtaining low cost financing. This will be accomplished by providing the ability to respond to business situations that might result in job loss within Illinois on a specially tailored basis as required. Although the situations cannot be accurately predicted, it is the objective of the Authority to make its staff and programs available as individual situations develop.
2. Assist in the creation of new jobs in Illinois by assisting new emerging or expanding businesses in securing project financing. In order to meet this objective, the Authority utilized three direct loan programs and three industrial revenue bond programs.
3. Assist municipalities in their financing of road, water and sewer projects necessary for economic development.
4. Induce enterprises to remain, expand, and locate in Illinois by helping to provide seed and investment capital.
5. Facilitate employee acquisition of individual and manufacturing facilities about to close or relocate outside Illinois.
6. Provide zero-interest loans to municipalities for rehabilitation and improvement of affordable multi-unit housing for low and moderate-income residents.

State of Illinois
Illinois Finance Authority

Compliance Examination
For the Year Ended June 30, 2006

Authority Functions and Planning Program (Continued)

7. Improve economic conditions of severely depressed municipalities by making grants to support housing, industrial, and commercial projects.
8. Expand their programs to monitor State bonding activity, initiate favorable legislation at the State and federal level, and communicate information to help inform the public.
9. Devote resources to help not-for-profit organizations address housing and service needs of the mentally ill and disabled.
10. Assist in providing low cost capital to for-profit and not-for-profit organizations for the financing of day care facilities.
11. Work with the General Assembly, the Governor, and other agencies to develop an integrated plan for waste management and to develop a funding mechanism to assist communities in financing of day care facilities.
12. Assist women, low income, and minority entrepreneurs, and business owners, and other such individuals possessing the capability to operate successful business concerns and to assist small business concerns in those areas suffering from lack of credit due to economic downturn.

On May 31, 2003 the 93rd General Assembly passed Senate Bill 1075 which became Public Act 93-0205 on July 17, 2003. This act repeals the enabling legislation of the Illinois Health Facilities Authority, the Illinois Educational Facilities Authority, the Illinois Development Finance Authority, the Illinois Rural Bond Bank, and the Illinois Farm Development Authority, effective January 1, 2004 and created the Illinois Finance Authority. The activities of each of the bonding authorities named above were transferred to the Illinois Finance Authority on January 1, 2004.

Planning Program

The policy of the Authority is to offer the broadest possible services to the borrower within the State consistent with the Authority's legislation and resources. This commitment is reflected by using the direct placement of the Authority bonds and notes and short-term revenue bonds, by the issuance of tax-exempt commercial paper, through the public sale of tax-exempt long-term bonds, and through the loan participation program.

Auditor's Assessment of Agency's Planning Program

The Authority's planning program appeared adequate.

State of Illinois
Illinois Finance Authority

Compliance Examination
For the Year Ended June 30, 2006

Average Number of Employees

The following is a summary of the average number of employees employed at the Authority for the year ended June 30, 2006:

	June 30, 2006	June 30, 2005
Director	1	1
Administrative Assistant	5	6
Chief Financial Officer	1	1
Client Service Representative	12	15
Accountant	2	2
Operations Manager	1	1
MIS Administrator	1	1
Public Information/ Marketing Administrator	1	1
Project Manager	1	-
Program Executive	1	1
Total average number of employees	26	29

State of Illinois
Illinois Finance Authority

Compliance Examination
For the Year Ended June 30, 2006

Emergency Purchases

<u>Contractor</u>	<u>Services Provided</u>	<u>Total Expenditures Incurred</u>
Shefsky & Froelich Ltd.	Legal Counsel	\$ 609,372
		<hr/>
	Total	<u><u>\$ 609,372</u></u>

State of Illinois
 Illinois Finance Authority

Compliance Examination
 For the Year Ended June 30, 2006

Ten-Year Schedule of Jobs Created or Retained by Loans, Revenue Bonds
 and Investments Made by the Authority (Unaudited)

Fiscal Year	Healthcare Bond Amounts Closed	Jobs Created and/or Retained	Educational Bond Amounts Closed	Jobs Created and/or Retained
2006	\$ 968,185,000	821	\$ 231,410,000	101
2005	937,800,000	229	842,460,000	577
2004	1,819,401,340	790	563,445,000	802
2003	-	-	-	-
2002	-	-	-	-
2001	-	-	-	-
2000	-	-	-	-
1999	-	-	-	-
1998	-	-	-	-
1997	-	-	-	-

Note: Information for the former Illinois Health Facilities Authority and the Illinois Educational Facilities Authority from 1997 through 2003 is not available.

State of Illinois
 Illinois Finance Authority

Compliance Examination
 For the Year Ended June 30, 2006

Ten-Year Schedule of Jobs Created or Retained by Loans, Revenue Bonds
 and Investments Made by the Authority (Unaudited)

Fiscal Year	Direct/ Participation Loan Amounts Closed	Jobs Created and/or Retained	Industrial Revenue Bond Amounts Closed	Jobs Created and/or Retained
2006	\$ 9,019,869	141	\$ 25,931,000	118
2005	3,670,727	133	53,218,000	224
2004	1,224,878	82	437,339,500	799
2003	1,342,383	55	92,555,000	170
2002	1,902,658	180	253,645,000	665
2001	2,663,378	332	71,535,000	861
2000	1,928,833	222	59,814,990	837
1999	1,810,157	109	107,010,000	1,123
1998	3,046,549	311	128,057,000	859
1997	2,197,740	246	131,790,000	834

Note: Information from 1997 through 2003 were 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 Illinois Finance Authority.

State of Illinois
 Illinois Finance Authority

Compliance Examination
 For the Year Ended June 30, 2006

Ten-Year Schedule of Jobs Created or Retained by Loans, Revenue Bonds
 and Investments Made by the Authority (Unaudited)

Fiscal Year	FmHA & E.D.A. Title IX Amounts Closed	Jobs Created and/or Retained	Investments in Venture Capital Companies	Jobs Created and/or Retained
2006	\$ 109,000	6	\$ 875,000	27
2005	-	-	841,697	52
2004	-	-	2,124,098	28
2003	-	-	390,100	20
2002	-	-	1,934,270	85
2001	220,000	22	2,951,000	474
2000	-	-	1,150,000	44
1999	300,000	33	1,217,380	46
1998	300,000	12	1,386,000	40
1997	930,700	93	150,000	2

Note: Information from 1997 through 2003 were 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 Illinois Finance Authority.

State of Illinois
 Illinois Finance Authority

Compliance Examination
 For the Year Ended June 30, 2006

Ten-Year Schedule of Jobs Created or Retained by Loans, Revenue Bonds
 and Investments Made by the Authority (Unaudited)

Fiscal Year	Other Projects Closed	Jobs Created and/or Retained	Total Construction Jobs
2006	\$ 294,337,360	341	7,151
2005	220,767,900	447	3,946
2004	-	-	8,147
2003	-	-	826
2002	-	-	579
2001	-	-	1,880
2000	-	-	3,528
1999	-	-	3,063
1998	-	-	-
1997	-	-	-

Note: Information from 1997 through 2003 were 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 Illinois Finance Authority.

Summary of Agriculture and Fire Truck Loan Programs

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.

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 bond holders.

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 3.4% to 12%. 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).

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.

State of Illinois
 Illinois Finance Authority

Compliance Examination
 For the Year Ended June 30, 2006

Summary of Agriculture and Fire Truck Loan Programs (Continued)

I. Agricultural Development Bonds (Continued)

Bonds issued and outstanding by purpose as of June 30, 2006:

Purpose	Number	Amount	Percent of Total
Land and depreciable property	221	\$26,122,125	9.8%
Farmland loans	1870	198,710,197	74.2%
New Equipment	484	15,379,768	5.7%
Used Equipment	91	2,460,490	0.9%
New improvements	179	10,558,830	3.9%
Used Improvements	2	46,000	0.0%
Breeding stock	42	971,650	0.4%
Soil conservation-permanent	28	584,763	0.2%
Agri-Business	79	10,386,203	3.9%
Tiling	52	1,549,276	0.6%
New no-till equipment	55	998,271	0.4%
	<u>3103</u>	<u>267,767,573</u>	<u>100.0%</u>
Principal payments to June 30, 2006		<u>183,032,910</u>	
Principal outstanding at June 30, 2006		<u>\$84,734,663</u>	

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
	<u>3103</u>	<u>\$ 267,767,573</u>

* - Information obtained from former Illinois Farm Development Authority except 2004, 2005 and 2006

Summary of Agriculture and Fire Truck Loan Programs (Continued)

II. State Guarantee Program For Restructuring Agricultural Debt

Overview:

The Loan Guarantee Program was authorized by Legislation and passed in November 1985. 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, 2006, thirteen (13) loans were approved totaling \$4,445,000. New loan amounts ranged from \$81,000 to \$500,000 with the average being \$342,000. Total outstanding loans at June 30, 2006, amounted to \$46,709,817. There was a statutory limit of \$160,000,000 for this guarantee program. A breakdown of loans issued by county immediately follows this section.

Revenues and Expenses of the Program:

The Authority's 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 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 to the farmer, as well as provided stability to his operations.

Summary of Agriculture and Fire Truck Loan Programs (Continued)

II. State Guarantee Program For Restructuring Agricultural Debt

Benefits to the Participants and Estimated Costs to the State (Continued):

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 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 Operating Fund.

III. Farmer and Agri-Business Loan Guarantee Program

Overview:

This Loan Guarantee Program was authorized by legislation passed in November 1985. Its guarantee was similar to the State Guarantee Program for Restructuring Agricultural Debt. Its target population was both agri-business and individual farmers. Its purpose was to encourage diversification and vertical integration of Illinois agriculture. The State issued an 85% guarantee for farmers/agri-business 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. 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 agribusiness. Loans must have been repaid within fifteen years. 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, 2006, one (1) loans were approved totaling \$1,461,000. The amount of loans outstanding as of June 30, 2006 was \$8,158,412. A breakdown of loans issued by county immediately follows this section.

Revenues and Expenses of the Program:

The Authority's 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 Operating Fund.

Benefits to the Participants and Estimated Costs to the State:

Benefits to the participants were the same as the Illinois Agricultural Loan Guarantee Program. Additionally, this program sought to diversify the Illinois farm economy.

Summary of Agriculture and Fire Truck Loan Programs (Continued)

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

Enterprise Fund:

Financial activities of this Fund were accounted for in the Farmer and Agri-Business Loan Guarantee Fund. This program, the Young Farmer 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 reduced in the Authority's Operating Fund.

IV. Young Farmer Loan Guarantee Program

Overview:

During fiscal year 1993 the Young Farmer Loan Guarantee Program was authorized by the Legislature.

The Young Farmer 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 Loans 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. 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 Loan Guarantee Program loan. The maximum term for a Young Farmer Loan Guarantee Program loan was fifteen years. Loans collateralized by real estate could be amortized up to twenty-five years with a fifteen year balloon. Loans collateralized by depreciable property were amortized over a shorter period.

The eligible applicant must:

- Have been a resident of the State of Illinois
- Have been at least eighteen 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

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.

Summary of Agriculture and Fire Truck Loan Programs (Continued)

IV. Young Farmer Loan Guarantee Program (Continued)

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.

Amount of Loans:

During the year ended June 30, 2006, two (2) were approved totaling \$428,000. The amount of loans outstanding as of June 30, 2006 was \$2,623,461. 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 $\frac{3}{4}\%$ and the lender received $\frac{1}{4}\%$. 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 $\frac{1}{4}\%$ of the outstanding balance of the Young Farmer Loan Guarantee Program loan on the payment date. The fee was not passed on to the borrower.

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

Benefits to the Participants and Estimated Costs to the State:

Benefits included lower interest rates on loans and a more readily available source of long term financing. These benefits lowered costs to the farmer, as well as provided stability to his operations.

V. Specialized Livestock Loan Guarantee Program

Overview:

This Loan Guarantee Program was authorized by legislation passed in July 1996 and is similar to the Farmers and Agri-Business Loan Guarantee Program. Its target population was both agri-business 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-business 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 fifteen 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.

Summary of Agriculture and Fire Truck Loan Programs (Continued)

V. Specialized Livestock Loan Guarantee Program (Continued)

The total outstanding loan balance under the Young Farmer Loan Guarantee Program, Farmer and Agri-Business Loan Guarantee Program and the Specialized Livestock Loan Guarantee Program could not exceed \$75 million. The total outstanding loan balance for these three programs at June 30, 2006 was \$28,293,571.

Amount of Loans:

During the year ended June 30, 2006, eight (8) loans were approved totaling \$3,046,000. The amount of loans outstanding as of June 30, 2006 was \$17,511,697. A breakdown of loans issued by county immediately follows this section.

Revenues and Expenses of the Program:

The Authority's Operating Fund received \$300 for an application fee and at closing, a fee of $\frac{3}{4}\%$ 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 Operating Fund.

VI. Fire Truck Revolving Loan Program

The fire truck revolving loan program was authorized by Public Act 94-221 as a continuation and re-enactment of the fire truck revolving loan program originally enacted by Public Act 93-35, and later repealed by Public Act 93-205. The loan program provides 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.

The loan funds are made out of the fire truck revolving loan fund, a special fund in the State Treasury. During the year ended June 30, 2006 thirty five (35) loans were approved totaling \$4,287,826. The amounts of loans outstanding as of June 30, 2006 were \$8,766,437.

State of Illinois
 Illinois Finance Authority

Compliance Examination
 For the Year Ended June 30, 2006

Historical Summary of Agricultural Loans Issued by Program by County - (Unaudited)

Program:	Agricultural Development Bonds (Issued)		State Guarantee Program of Restructuring Agricultural Debt Loans (Issued)		Farmer and Agri-Business Loan Guarantee Program Loans (Issued)		Young Farmer Loan Guarantee Program Loans (Issued)		Specialized Livestock Loan Guarantee Program Loans (Issued)	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
Adams	72	\$ 6,235,868	27	\$ 4,304,838	1	\$ 36,000	4	\$ 526,000	3	\$ 1,917,000
Alexander			1	180,000						
Bond	53	3,531,670	10	1,532,000			1	192,000	2	1,184,000
Boone	9	1,108,100	5	1,443,000						
Brown	2	160,000	14	3,436,000					1	840,000
Bureau	130	9,752,607	21	4,422,014			2	356,000	4	1,246,000
Calhoun	2	181,000	5	936,110			2	340,000		
Carroll	46	5,243,655	7	1,608,000					3	1,144,000
Cass	10	1,216,276	6	1,280,000	1	595,000			2	1,175,000
Champaign	65	4,248,464	22	3,831,011	1	362,000				
Christian	79	7,468,042	11	2,611,500			3	445,000	2	1,572,000
Clark	8	322,000	12	1,718,000						
Clay	45	2,762,679	6	1,079,000			1	85,000	1	780,000
Clinton	65	5,844,042	10	2,541,101	5	10,990,000	2	77,000	5	2,670,000

State of Illinois
Illinois Finance Authority

Compliance Examination
For the Year Ended June 30, 2006

Historical Summary of Agricultural Loans Issued by Program by County (Continued) - (Unaudited)

Program:	Agricultural Development Bonds (Issued)		State Guarantee Program of Restructuring Agricultural Debt Loans (Issued)		Farmer and Agri-Business Loan Guarantee Program Loans (Issued)		Young Farmer Loan Guarantee Program Loans (Issued)		Specialized Livestock Loan Guarantee Program Loans (Issued)	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
County										
Coles	20	\$ 1,347,944	14	\$ 2,317,000						
Cook										
Crawford	39	2,588,455	33	8,189,625	6	2,676,000	3	51,500	4	501,500
Cumberland	16	1,097,788	3	606,000	1	150,000				
DeKalb	61	5,260,839	36	10,057,000			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	39	3,389,743	28	5,770,164	1	625,000	4	513,000	1	75,000
Edwards	10	493,100	1	135,000						
Effingham	34	3,100,000	1	85,000						
Fayette	39	2,538,230	8	2,060,000						
Ford	48	5,382,000	8	1,440,000					3	1,925,000
Franklin	46	2,571,865	16	3,892,000	2	3,695,000				
Fulton	30	3,796,600	13	2,211,900	2	172,000			1	88,000

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Historical Summary of Agricultural Loans Issued by Program by County (Continued) - (Unaudited)

Program:	Agricultural Development Bonds (Issued)		State Guarantee Program of Restructuring Agricultural Debt Loans (Issued)		Farmer and Agri-Business Loan Guarantee Program Loans (Issued)		Young Farmer Loan Guarantee Program Loans (Issued)		Specialized Livestock Loan Guarantee Program Loans (Issued)	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
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	39	3,540,050	2	840,000			1	171,000	2	1,280,000
Hancock	36	3,303,406	38	5,914,888					4	782,000
Hardin					2	1,900,000				
Henderson	26	2,900,480	17	3,273,500	1	45,000	2	262,000	5	2,015,000
Henry	38	4,601,926	27	4,498,000			1	57,000	3	1,140,000
Iroquois	97	7,966,216	13	2,733,000					1	170,000
Jackson	5	467,780	7	1,246,000			1	71,000		
Jasper	74	4,228,387	43	8,027,200			2	240,000	11	1,637,000
Jefferson	16	894,800	9	1,473,000			1	40,000	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

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Program:	Agricultural Development Bonds (Issued)		State Guarantee Program of Restructuring Agricultural Debt Loans (Issued)		Farmer and Agri-Business Loan Guarantee Program Loans (Issued)		Young Farmer Loan Guarantee Program Loans (Issued)		Specialized Livestock Loan Guarantee Program Loans (Issued)	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
County										
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		
Kendall	3	273,000	9	1,642,000						
Knox	33	3,206,554	15	2,979,460	1	65,000	2	232,000	2	434,000
Lake										
LaSalle	103	9,897,730	33	6,571,300			1	54,000	1	1,000,000
Lawrence	45	3,140,338	9	1,945,500					3	3,000,000
Lee	56	6,472,362	22	5,599,000			1	110,000	1	455,000
Livingston	142	13,278,941	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	30	3,692,120	22	4,453,000			3	416,000	6	3,400,000
Madison	21	2,326,940	16	4,359,000			9	1,756,000		

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Historical Summary of Agricultural Loans Issued by Program by County (Continued) - (Unaudited)

Program:	Agricultural Development Bonds (Issued)		State Guarantee Program of Restructuring Agricultural Debt Loans (Issued)		Farmer and Agri-Business Loan Guarantee Program Loans (Issued)		Young Farmer Loan Guarantee Program Loans (Issued)		Specialized Livestock Loan Guarantee Program Loans (Issued)	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
Marion	10	\$ 665,510	31	\$ 6,022,160	1	\$ 3,200,000	3	\$ 640,000	2	\$ 507,000
Marshall	24	2,029,081	8	1,611,000			3	513,000		
Mason	53	4,160,009	9	2,212,702	1	137,000				
Massac	2	30,000	2	435,000						
McDonough	11	1,028,550	14	3,116,000	1	300,000	1	87,000	1	520,000
McHenry	3	440,000	8	2,060,000			1	190,000	1	69,000
McLean	111	7,998,285	32	5,371,734			7	1,015,000	2	1,250,000
Menard	14	1,097,965	16	3,384,000			1	72,000		
Mercer	26	3,081,386	17	3,304,600			7	707,000	10	5,444,800
Monroe	35	3,880,075	26	5,758,707					1	51,000
Montgomery	72	8,643,240	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
Moultrie	30	1,627,250	6	995,500	1	40,000			1	250,000
Ogle	70	6,780,047	10	2,335,000			4	751,000	2	375,000

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Historical Summary of Agricultural Loans Issued by Program by County (Continued) - (Unaudited)

Program:	Agricultural Development Bonds (Issued)		State Guarantee Program of Restructuring Agricultural Debt Loans (Issued)		Farmer and Agri-Business Loan Guarantee Program Loans (Issued)		Young Farmer Loan Guarantee Program Loans (Issued)		Specialized Livestock Loan Guarantee Program Loans (Issued)	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
Peoria	23	\$ 2,310,520	25	\$ 6,037,000			2	\$ 322,000	1	\$ 150,000
Perry	10	636,256	19	3,672,900	3	1,020,000				
Piatt	36	1,702,807	9	1,638,000						
Pike	5	822,576	47	10,167,519	1	250,000	9	1,814,000	7	4,990,000
Pope			1	500,000						
Pulaski			3	940,000						
Putnam	10	972,859	5	568,681					1	615,000
Randolph	6	552,400	13	2,484,000			2	165,000	2	380,000
Richland	31	1,644,704	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	35	2,485,315	39	7,330,000			1	300,000	2	925,000
Schuyler	8	698,780								
Scott	6	783,300	8	1,379,538			1	181,000		

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Historical Summary of Agricultural Loans Issued by Program by County (Continued) - (Unaudited)

Program:	Agricultural Development Bonds (Issued)		State Guarantee Program of Restructuring Agricultural Debt Loans (Issued)		Farmer and Agri-Business Loan Guarantee Program Loans (Issued)		Young Farmer Loan Guarantee Program Loans (Issued)		Specialized Livestock Loan Guarantee Program Loans (Issued)	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
Shelby	74	\$ 5,362,279	17	\$ 3,570,267	1	\$ 47,000	1	\$ 81,000		
St. Clair	29	2,163,180	5	1,156,000	1	40,000				
Stark	20	2,256,500	15	3,612,000			1	300,000		
Stephenson	30	2,729,210	28	6,304,498	13	17,184,495	2	176,000	4	2,317,000
Tazewell	79	6,365,315	23	4,515,049			1	255,000	1	218,000
Union	21	1,131,036	2	800,000	1	860,000				
Vermillion	29	3,380,140	26	3,978,640	2	198,000	1	89,000		
Wabash	5	181,300	3	676,000						
Warren	46	5,369,746	17	3,507,000	1	4,000,000	3	589,000	8	3,845,000
Washington	35	2,203,570	10	2,045,000					2	1,250,000
Wayne	16	1,430,125	4	1,008,000	1	2,651,000			1	643,000
White	1	30,000	5	1,442,500						
Whiteside	88	9,376,095	26	5,138,000					6	2,552,000
Will	17	1,307,940	1	300,000						

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Historical Summary of Agricultural Loans Issued by Program by County (Continued) - (Unaudited)

Program:	Agricultural Development Bonds (Issued)		State Guarantee Program of Restructuring Agricultural Debt Loans (Issued)		Farmer and Agri-Business Loan Guarantee Program Loans (Issued)		Young Farmer Loan Guarantee Program Loans (Issued)		Specialized Livestock Loan Guarantee Program Loans (Issued)	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
County										
Williamson	2	\$ 132,000			1	\$ 1,750,000				
Winnebago	8	694,750	8	1,343,000	2	305,412	1	500,000		
Woodford	50	3,862,735	18	3,011,810	2	635,000	1	100,000	3	227,000
	3,103	\$ 267,767,573	1,353	\$ 282,137,319	80	\$ 66,962,907	113	\$ 16,983,500	161	\$ 71,886,300

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Service Efforts and Accomplishments (Unaudited)

Issuance Performance

Total number of new issues		67
New issue value	\$	2,304,563,652
Application fees	\$	104,670
Administrative service fees	\$	4,370,470

Operating Performance

Total number of issues		803
Total outstanding issue value	\$	20,919,876,000
Annual fees	\$	1,299,441
Annual fees/total outstanding issue value		
Total expenses	\$	9,086,808
Total expenses/total outstanding issue value		0.0434%
Total expenses/total number of issues	\$	11,316