McGladrey & Pullen
Certified Public Accountants

STATE OF ILLINOIS
ILLINOIS FINANCE AUTHORITY

Financial Audit
For the Year Ended June 30, 2007

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

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

FINANCIAL AUDIT

For the Year Ended June 30, 2007

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

AGENCY OFFICIALS

Executive Director	Ms. Kym Hubbard	5/21/2007 - Current
Interim Executive Director	Ms. Jill Rendleman	7/1/2006 – 5/21/2007
Chairman – Board of Directors	Mr. David C. Gustman	
Chief Financial Officer and Treasurer	Mr. Jose Garcia	
Chief Administrative Officer	Mr. Stuart Boldry	
Chief Credit Officer	Mr. Steven Trout	

Board Members

William Barclay	Terrance M. O'Brien
Magda Boyles	Andrew W. Rice
Ronald E. DeNard	Juan B. Rivera
James J. Fuentes	Lynn F. Talbott
Michael W. Goetz	Joseph P. Valenti
Dr. Roger D. Herrin	April Verrett
Edward H. Leonard Sr.	Bradley A. Zeller

Agency offices are located at:

Chicago Office
180 N. Stetson Avenue, Suite 2555
Chicago, Illinois 60601

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

Springfield Office
427 E. Monroe Street, Suite 202
Springfield, Illinois 62701

Peoria Office
124 S.W. Adams Street, Suite 300
Peoria, Illinois 61602

Carbondale Office
150 E. Pleasant Hill Road
Carbondale, Illinois 62901

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

For the Year Ended June 30, 2007

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying financial statements of the State of Illinois, Illinois Finance Authority was performed by McGladrey & Pullen, LLP.

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

McGladrey & Pullen
Certified Public Accountants

Independent Auditors' Report

Honorable William G. Holland
Auditor General
State of Illinois
and
Mr. William A. Brandt, Jr.
Honorable Chairman of the Board of Directors
Illinois Finance Authority

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of the State of Illinois, Illinois Finance Authority, a component unit of the State of Illinois, as of and for the year ended June 30, 2007, which collectively comprise the State of Illinois, Illinois Finance Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Illinois, Illinois Finance Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 2, the financial statements of the State of Illinois, Illinois Finance Authority are intended to present the financial position and changes in financial position and cash flows, where applicable, of only that portion of each major fund and the aggregate remaining fund information of the State that is attributable to the transactions of the State of Illinois, Illinois Finance Authority. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2007, and its changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of the State of Illinois, Illinois Finance Authority, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report January 25, 2008 on our consideration of the State of Illinois, Illinois Finance Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Illinois, Illinois Finance Authority's basic financial statements. The accompanying supplementary information on pages 33 through 38 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

McGladrey & Pullen, LLP

Schaumburg, Illinois
January 25, 2008

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

Statement of Net Assets

June 30, 2007

Assets	General Operating Fund	Bond Fund	Nonmajor funds	Total
Current assets:				
Cash and cash equivalents – unrestricted	$ 1,807,540	—	13,040,856	14,848,396
Investments – unrestricted	2,937,126	—	1,998,445	4,935,571
Restricted current assets				
Cash and cash equivalents	—	818,489	3,294,497	4,112,986
Accrued interest receivable	—	899,783	8,000	907,783
Restricted investments	—	62,056	—	62,056
Bonds and notes receivable	—	4,423,500	—	4,423,500
Loans receivable	—	—	660,765	660,765
Allowance for doubtful accounts	—	—	(91,484)	(91,484)
Current portion of deferred issuance costs	—	28,608		28,608
Receivables:				
Accounts	585,679	—	—	585,679
Allowance for doubtful accounts	(66,146)	—	—	(66,146)
Loans receivable	3,863,856	—	—	3,863,856
Interest and other	184,846	—	61,311	246,157
Current portion of deferred issuance costs	86,998	—	—	86,998
Prepaid expenses and deposits	170,877	—	—	170,877
Total current assets	9,570,776	6,232,436	18,972,390	34,775,602
Noncurrent assets:				
Restricted Noncurrent assets				
Cash and cash equivalents	—	—	22,164,394	22,164,394
Interest receivable	—	186,583	81,578	268,161
Guarantee payments receivable	—	—	459,048	459,048
Allowance for doubtful accounts	—	—	(433,526)	(433,526)
Deferred issuance costs, net of accumulated amortization	—	175,071	—	175,071
Investments	—	8,445,346	—	8,445,346
Bonds and notes receivable	—	42,810,800	—	42,810,800
Loans receivable	—	—	8,133,405	8,133,405
Allowance for doubtful accounts	—	—	(116,897)	(116,897)
Investments in partnerships and companies	—	—	5,554,091	5,554,091
Loans Receivable	26,420,816	—	4,973,243	31,394,059
Allowance for doubtful accounts	(2,814,970)	—	—	(2,814,970)
Due from other funds long term	2,345,720	—	729,906	3,075,626
Property and equipment, at cost	534,067	—	—	534,067
Accumulated depreciation	(273,560)	—	—	(273,560)
Deferred issuance costs, net of accumulated amortization	509,596	—	—	509,596
Total noncurrent assets	26,721,669	51,617,800	41,545,242	119,884,711
Total assets	36,292,445	57,850,236	60,517,632	154,660,313
Liabilities				
Current liabilities:				
Accounts payable	325,070	19,432	—	344,502
Accrued expenses	849,386	—	—	849,386
Accrued interest payable	—	1,034,882	4,140	1,039,022
Due to employees	42,396	—	—	42,396
Due to primary government	189,211	—	—	189,211
Bonds payable, current	—	4,470,000	—	4,470,000
Current portion of long-term debt	—	—	55,394	55,394
Deferred loss on early extinguishment of debt-current portion		(8,729)		(8,729)
Deferred revenue, net of accumulated amortization	116,664	—	—	116,664
Total current liabilities	1,522,727	5,515,585	59,534	7,097,846
Noncurrent liabilities:				
Noncurrent portion of long-term debt	—	—	772,666	772,666
Accrued expenses	—	172,588	—	172,588
Bonds payable, noncurrent	—	50,880,000	—	50,880,000
Deferred revenue net of accumulated amortization	723,941	—	—	723,941
Due to other funds - long term	17,533	—	3,058,093	3,075,626
Deferred loss on early extinguishment of debt	—	(101,585)	—	(101,585)
Total liabilities	2,264,201	56,466,588	3,890,293	62,621,082
Net Assets				
Invested in capital assets	260,507	—	—	260,507
Restricted	—	1,383,648	33,323,286	34,706,934
Unrestricted	33,767,737	—	23,304,053	57,071,790
Total net assets	$ 34,028,244	1,383,648	56,627,339	92,039,231

See accompanying notes to financial statements.

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

Statement of Revenues, Expenses, and Changes in Fund Net Assets

For the Year Ended June 30, 2007

	General Operating Fund	Bond Fund	Nonmajor funds	Total
Operating revenues:				
Interest on loans	$ 1,129,750	—	222,405	1,352,155
Interest on loans (security for revenue bonds)	—	2,314,439	—	2,314,439
Application fees	273,400	—	—	273,400
Annual fees	1,094,975	59,036	—	1,154,011
Administrative service fees	6,632,365	—	—	6,632,365
Bad debt recoveries	—	—	31,839	31,839
Miscellaneous	9,197	—	—	9,197
Total operating revenues	9,139,687	2,373,475	254,244	11,767,406
Operating expenses:				
Employee related expenses	3,638,102	—	—	3,638,102
Professional services	2,494,363	84,758	62,953	2,642,074
Depreciation	53,639	—	1,100	54,739
Occupancy costs	467,917	—	—	467,917
Interest expense	—	2,648,474	118,721	2,767,195
General and administrative	410,676	—	—	410,676
Loan loss provision	667,521	—	101,518	769,039
Total operating expenses	7,732,218	2,733,232	284,292	10,749,742
Operating income (loss)	1,407,469	(359,757)	(30,048)	1,017,664
Nonoperating revenues (expenses):				
Interest and investment income	558,953	346,398	1,888,264	2,793,615
Net appreciation (depreciation) in fair value of investments	25,835	—	152,235	178,070
Total nonoperating revenues (expenses), net	584,788	346,398	2,040,499	2,971,685
Income (loss) before other revenues, gains losses and transfers	1,992,257	(13,359)	2,010,451	3,989,349
Transfers				
Transfers from other funds	670,573	—	—	670,573
Transfers to other funds	—	—	(670,573)	(670,573)
Total transfers	670,573	—	(670,573)	—
Change in net assets	2,662,830	(13,359)	1,339,878	3,989,349
Net assets – beginning of period -	31,365,414	1,397,007	55,287,461	88,049,882
Net assets – end of period	$ 34,028,244	1,383,648	56,627,339	92,039,231

See accompanying notes to financial statements.

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

Statement of Cash Flows

For the Year Ended June 30, 2007

	General Operating Fund	Bond Fund	Nonmajor funds	Total
Cash flows from operating activities:				
Cash received for interest on loans	$ 1,040,538	2,433,018	48,937	3,522,493
Cash received for fees and other	7,759,710	59,036	—	7,818,746
Cash received on loan receivables and guarantees	3,673,143	6,619,900	1,794,191	12,087,234
Cash payments on loan receivables and guarantees	(15,727,528)	(1,915,000)	(1,232,000)	(18,874,528)
Cash payments for employee services	(3,629,533)	—	—	(3,629,533)
Cash payments to suppliers for goods and services	(2,883,677)	(34,568)	(62,953)	(2,981,198)
Net cash provided by (used in) operating activities	(9,767,347)	7,162,386	548,175	(2,056,786)
Cash flows from noncapital financing activities:				
Due from other funds	(87,753)	—	(17,533)	(105,286)
Due to other funds	17,533	—	87,753	105,286
Transfers from other funds	938,942	—	—	938,942
Transfers to other funds	—	—	(938,942)	(938,942)
Bonds and notes principal payments	—	(6,660,000)	(54,846)	(6,714,846)
Proceeds from issuance of revenue bonds	—	1,915,000	—	1,915,000
Interest payments	—	(2,749,389)	(8,829)	(2,758,218)
Net cash provided by (used in) noncapital financing activities	868,722	(7,494,389)	(932,397)	(7,558,064)
Cash flows from capital and related financing activities:				
Purchase of capital assets	(165,577)	—	—	(165,577)
Net cash used in capital and related financing activities	(165,577)	—	—	(165,577)
Cash flows from investing activities:				
Purchase of investments	(1,000,284)	(361)	(5,598,893)	(6,599,538)
Maturity and sales of investments	1,100,000	—	3,563,016	4,663,016
Interest and dividends on investments	556,240	518,209	1,848,098	2,922,547
Net cash provided by (used in) investing activities	655,956	517,848	(187,779)	986,025
Net increase (decrease) in cash and cash equivalents	(8,408,246)	185,845	(572,001)	(8,794,402)
Cash and cash equivalents at beginning of period	10,215,786	632,644	39,071,748	49,920,178
Cash and cash equivalents at end of period	$ 1,807,540	818,489	38,499,747	41,125,776
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	$ 1,407,469	(359,757)	(30,048)	1,017,664
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	53,639	—	1,100	54,739
Amortization of bond issuance costs	—	30,758	110,166	140,924
Interest expense	—	2,648,474	8,555	2,657,029
Changes in assets and liabilities:				
Accrued interest	(89,212)	114,397	(25,791)	(606)
Loans receivable	(11,453,011)	4,704,900	631,870	(6,116,241)
Accounts receivable	(154,081)	4,393	—	(149,688)
Prepaid expenses and deposits	(218)	—	—	(218)
Accounts payable and accrued expenses	459,498	19,432	—	478,930
Due to local governments	—	(211)	—	(211)
Due to employees	8,569	—	—	8,569
Deferred revenue	—	—	(147,677)	(147,677)
Net cash provided by (used in) operating activities	$ (9,767,347)	7,162,386	548,175	(2,056,786)

See accompanying notes to financial statements.

(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 the existing finance authorities' authorizing legislation. The mission of the Authority is statutorily defined as follows in the Illinois Finance Authority Act (20 ILCS 3501/801 et. Seq.):

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

The Authority is a body corporate and politic, of the State of Illinois. The Authority is governed by a 15-member board of directors, appointed by the Governor with the advice and consent of the Senate. As specified in the Illinois Finance Authority Act the amount of bonds issued by the Authority cannot exceed $25,200,000,000.

(2) Summary of Significant Accounting Policies

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

(a) Financial Reporting Entity

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

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

(2) Fiscal dependency on the primary government.

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

(b) Basis of Presentation

The accounts of the Authority are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenses, as appropriate. The emphasis on fund financial statements is on a major proprietary fund (enterprise); each is displayed in a separate column. All remaining proprietary funds are aggregated and reported as nonmajor funds. All agency administered funds are non-appropriated. In fiscal year 2007, the Authority combined the IRBB General Fund Trust Fund with the General Operating Fund.

The Authority has the following major proprietary funds:

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

Bond Fund – Each bond represents a moral obligation of the State of Illinois and is comprised of several accounts as required by the bond indenture. Each of the bond issues has been issued in parity with the previous issues. The accounts of all the issues have been aggregated and reported as the Bond Fund. These are non-appropriated accounts maintained by the trustee. The purpose of the fund is to collect bond proceeds, purchase local governmental securities and remit bond issuance costs paid for with bond proceeds. The fund also collects interest and principal payments from the local governmental units and makes payments and interest on the moral obligation bonds payable.

(c) Basis of Accounting

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

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

(d) Cash and Cash Equivalents

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

(e) Restricted Assets

Certain resources have been classified as restricted assets on the statement of net assets because their use is limited by applicable bank and loan agreements. See notes on cash and investments (Note 3), long-term obligations (Note 8), revenue bonds payable (Note 9) and commitments and contingencies (Note 13) for additional disclosures.

(f) Investments

Investments are reported at fair value based on quoted market prices. Investments in venture capital companies are reported at fair value based upon the lower of cost or estimated market value as determined by management based upon financial and operational information from the investee. Investment contracts are considered to be Guaranteed Investment Contracts. These contracts are reported at fair value based on quoted market prices.

(g) Deferred Issuance Costs and Deferred Revenue

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

(h) Deferred Loss on Early Extinguishment

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

(i) Interfund Transactions

The Authority has the following types of interfund transactions:

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

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

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

(j) Capital Assets

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

Capitalization thresholds and the estimated useful lives are as follows:

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

(k) Vacation and Sick Leave

The Authority's employees earn vacation and sick leave pay which generally may be either taken or accumulated. Employees are allowed to carry up to one week of earned vacation days into the next calendar year. Any days over this amount will be lost. Upon termination, any unused vacation days will be paid to the employee. Vacation and sick leave pay are accrued when earned. The current liability is recorded in the General Operating Fund.

Activity related to accrued vacation and sick leave for the year ended June 30, 2007 consisted of the following:

Leave June 30, 2006	Earned	Paid	Leave June 30, 2007	Within One Year
$ 33,827	$ 128,351	$ 119,782	$ 42,396	$ 42,396

(l) Net Assets

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

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

Restricted – This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first, then unrestricted resources when they are needed. As of June 30, 2007, the Authority had restricted net assets of $34,706,934, of which $29,735,948 is restricted by enabling legislation.

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

(m) Classification of Revenues

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

(n) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(o) Conduit Debt Obligations

In accordance with Illinois Compiled Statutes, the Authority issues limited obligation revenue bonds and participates in lending and leasing agreements to provide low cost financing to businesses, agribusinesses, health care facilities, educational facilities, municipalities, and other organizations in order to stabilize and strengthen the Illinois economy in areas of job creation and job retention. The bonds and leases are secured by the property financed. Upon repayment of the debt, ownership of the acquired facilities transfers to the entity served by the issuance. Neither the Authority, State, nor any political subdivision thereof is obligated in any manner for repayment of the debt. Accordingly, the bonds and leases are not reported as liabilities in the Authority's basic financial statements. As of June 30, 2007, the aggregate amount of conduit debt outstanding is approximately $21.6 billion.

(3) Cash and Investments

Cash and Investments as of June 30, 2007 are classified in the accompanying financial statements as follows:

Cash and cash equivalents - unrestricted	$	14,848,396
Cash and cash equivalents - restricted current assets		4,112,986
Cash and cash equivalents - restricted noncurrent assets		22,164,394
Investments - unrestricted		4,935,571
Restricted investments - current assets		62,056
Investments - restricted noncurrent assets		8,445,346
Investments in partnerships and companies		5,554,091
Total cash and investments	$	60,122,840

Cash and investments as of June 30, 2007 consist of the following:

Deposits with financial institutions	$	7,412,894
Deposits with State of Illinois Treasurer		21,379,005
Investments		31,330,941
	$	60,122,840

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

(a) Federal Government Securities, including securities of the federal agencies.

(b) Securities guaranteed by the federal government.

(c) Savings accounts, certificates of deposit, time deposits in banks or savings and loans insured by the FDIC and any deposits in excess of amounts insured by the FDIC are collateralized.

(d) Short-term obligations of U.S. corporations with assets exceeding $500,000,000 and rated investment grade and which mature not later than 180 days from the date of purchase, provided that such obligations do not exceed 10% of the corporation's outstanding obligations and no more than one-third of the Authority's funds are invested in such obligations.

(e) Money market mutual funds registered under the Investment Company Act of 1940 provided the portfolio is limited to either U.S. government or government-backed securities.

(f) Shares of other forms of securities legally issued by savings banks or savings and loan associations, if such securities are insured by the FDIC.

(g) Dividend-bearing share accounts, share certificate accounts or class of share accounts of a credit union, if insured under applicable law.

(h) The Illinois Public Treasurer's Investment Pool.

(i) A fund managed, operated, and administered by a bank, subsidiary of a bank, or subsidiary of a bank holding company or use the services of such an entity to hold and invest or advise regarding the investment.

(j) Repurchase agreements of government securities.

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Authority manages its exposure to interest rate risk by basing its investment decisions regarding maturity dates and rates on an analysis of the Authority's short-, mid-, and long-term cash needs and keeping the portfolio sufficiently liquid to enable the Authority to meet its operating requirements. In addition, during Fiscal Year 2006 the Authority amended its Investment policy by limiting any new investments to maturities of 5 years or less unless approved by the Executive Director.

As of June 30, 2007 the Weighted Average Maturity of the Authority's investments were:

Investment Type		Weighted Average Maturity (in years)
Federal Agency Securities	$ 3,739,036	4.36
State Investment Pool (Illinois Funds)	9,206,362	0.02
Money Market Funds	4,386,106	N/A
Investment Contracts (Bond Fund)	8,445,346	12.48
Investments in partnership and companies	5,554,091	N/A
	$ 31,330,941	

Credit Risk

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

Investment Type		Exempt From Disclosure	Rating as of Year End AAA	Not Rated
Federal Agency Securties	$ 3,739,036	$ -	$ 3,739,036	$ -
State investment pool (Illinois Funds)	9,206,362	-	9,206,362	-
Money Market Funds	3,384,880	-	2,784,880	600,000
Held by bond trustee:				
Money market funds	1,001,226	-	1,001,226	-
Investment contracts (Bond Fund)	8,445,346	-	-	8,445,346
Investments in partnerships and companies	5,554,091	5,554,091	-	-
Total	$ 31,330,941	$ 5,554,091	$ 16,731,504	$ 9,045,346

Concentration of Credit Risk

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

Certificates of Deposit from any single financial institution may not comprise more than 20% of the Authority's portfolio or 5% of the financial institution's total deposits.

Commercial Paper purchases may not exceed 20% of the IFA Portfolio in total and 5% of IFA Portfolio in any single issuer's name.

No investment category shall exceed 30% of the Authority's Portfolio, with the exception of U.S. Treasury securities and cash equivalents, including certificates of deposits.

As of June 30, 2007, investments in any one issuer (other than US Treasury securities, mutual funds, and external investment pools) did not represent 5% or more of the total Authority investments. Investments in any one issuer that represent 5% or more of total investments in any major fund or nonmajor funds in the aggregate are as follows:

Issuer	Fund	Investment Type	Reported Amount
Amcore Bank of Rockford	Bond Fund	Investment Contract	$ 837,938
FNB Springfield	Bond Fund	Investment Contract	1,441,678
Morgan	Bond Fund	Investment Contract	1,922,077
Bayerische	Bond Fund	Investment Contract	1,327,534
Societe General	Bond Fund	Investment Contract	1,541,820
Bank of America	Bond Fund	Investment Contract	539,115

Custodial Credit Risk

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

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

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

As of June 30, 2007 all of the Authority's deposits with financial institutions in excess of federal depository limits were collateralized. The securities pledged as collateral were held with third party safekeeping in the name of the Authority.

As of June 30, 2007, all of the Authority's investments were backed by US Government Treasuries held in the name of the Authority.

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

(4) Bonds and Loans Receivable

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

Illinois Housing Partnership Program

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

August 1, 2016	$ 3,000,000

Direct Lending Program

The Authority provides loans to Illinois businesses that cannot obtain sufficient financing through conventional sources, by lowering the amount of equity the borrower must contribute. Financing includes up to $250,000 to small and mid-size businesses for land, building, machinery, and equipment purchases. The Authority did not provide any new loans under this program for the year ending June 30, 2007. Loans under this program carry an interest rate of 1.5% with maturity dates up to ten years. This program has been superceded by the Direct Lending Participation Program. Total loans outstanding as of June 30, 2007, were $107,808.

Direct Lending Participation Program

Similar to the Direct Lending Program, the Authority allows for the purchase of land, building, construction or renovation of a building, and acquisition of machinery and equipment up to the lesser of $1,000,000 or 50% of the project. By purchasing a participation of the bank at a lower interest rate than the borrower would receive on its own, the Authority requires the bank to pass savings directly to the borrower. The Authority participations are on a pro rata 50/50 basis with the bank. Loans under this program carry a variable interest rate that is up to 200 basis points less than the bank's rate with maturity dates up to ten years. Total loans outstanding as of June 30, 2007, were $30,029,230.

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

The E.D.A. Title IX Restricted Revolving Loan Program provides low-cost supplemental financing to manufacturing companies located in areas declared eligible for Title IX assistance by the E.D.A. Loans under this program are up to $100,000 for small and mid-size manufacturers, and carry a fixed interest rate of 7.5% with maturity dates up to ten years. Total loans outstanding as of June 30, 2007, were $91,484. The E.D.A Title IX Restricted Revolving loans are fully reserved.

The Rural Development Revolving Loan Program

The Rural Development Revolving Loan Program participates with the Rural Development Administration's (formerly the Farmers Home Administration's) Intermediary Relending Program to provide loans to business facilities and community development projects in rural areas for land acquisitions, facility construction and renovation, and machinery and equipment purchases. The Authority will contribute up to 75% or $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, 2007, were $454,971.

SBA Microloan Demonstration Program

This program of the Authority accounts for the activity of loans received under the Small Business Administration (SBA) Microloan Demonstration Program. The purpose of this program is to assist women, low income, and minority entrepreneurs, and business owners, and other such individuals possessing the capability to operate successful business concerns and to assist small business concerns in those areas suffering from a lack of credit due to economic downturn as set forth under the loan agreement and the Small Business Act, 15 U.S.C. 636. Total loans outstanding as of June 30, 2007, were $80,635. The SBA Microloans are fully reserved.

Employee Ownership Assistance Program

This program provides supplemental financing to help facilitate employee acquisition of industrial and manufacturing facilities about to close or relocate outside of Illinois. Loans are made to employee-owned enterprises and may be used to finance up to 50% of total acquisition costs. It is funded by an appropriation for these purposes of $2,000,000 received by the prior Illinois Development Finance Authority during 1986 as set forth in Public Act 82-991. Total loans outstanding as of June 30, 2007, were $1,000,000.

Fire Truck Revolving Loan Program

This program provides zero interest rate loans to fire departments and fire protection districts that may be used only to purchase fire trucks. The loans to each department or district may not exceed $250,000 and must be repaid within 20 years. The program is funded by an appropriation of $10,000,000 received by the State of Illinois. Total loans outstanding as of June 30, 2007, were $8,247,715.

Local Government Financing Assistance Program

This program provides financing to units of local government located in the State of Illinois by purchasing the securities of the local governments. Total loans outstanding as of June 30, 2007, were $1,040,243.

Bond Bank Lending Program

This program facilitates the financing needs of a broad array of governmental units located through out the State. The Local Government units make payments on the loans from taxes, revenues, rates, charges or assessments, in an amount sufficient to pay the principal of an interest on its Local Government Securities when due. The program is funded by issuing Moral Obligation Revenue Bonds (Footnote 9). Total loans outstanding as of June 30, 2007 were $47,234,300.

Allowance for Doubtful Accounts

The allowance for doubtful accounts for all loans receivable and notes receivable at June 30, 2007, is comprised of two components. Loans which are delinquent greater than 90 days are reserved for at 100% of principal outstanding. In addition, the Authority provides a general reserve at approximately 5% for the principal balance of all other loans outstanding. Loans originated by the predecessor Illinois Rural Bond Bank, the Fire Truck Revolving Loan Program and the Local Government Financing Assistance Program have not experienced a default, therefore, the allowance for doubtful accounts based on prior experience is zero.

(5) Guarantee Payments Receivable

Guarantee payments receivable result from amounts due to the Authority after it has paid a guarantee claim. Activity related to guarantee receivables for the year ended June 30, 2007, consisted of the following:

	Illinois Farmer Agribusiness Loan Guarantee Fund	Illinois Agricultural Loan Guarantee Fund	Total
Guarantee receivables beginning of year	$ 447,621	$ 170,902	$ 618,523
Disbursements on guarantee claims	-	-	-
Payments received	(60,882)	-	(60,882)
Receivables written off	(98,593)	-	(98,593)
Gross guarantee receivables end of year	288,146	170,902	459,048
Allowance for doubtful accounts	(262,624)	(170,902)	(433,526)
Net receivables - end of year	$ 25,522	$ -	$ 25,522

Allowance for Doubtful Accounts

The allowance for doubtful accounts for all guarantee receivables at June 30, 2007, is the difference between the guarantee payments made and the Authority's estimation of the value of any collateral securing the guarantee.

(6) Investments in Partnerships and Companies

The Authority currently has investments in one (1) partnership and sixteen (16) companies. These investments were made to accomplish the statutory purpose of the Venture Investment Fund. There is no established market for the purchase or sale of the partnerships and company interests or the equity securities in which the partnerships have investments.

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

The fair value, which is reported at the lower of cost or market, of the Authority's investment in the partnerships and companies as of June 30, 2007, is reflected below:

Partnership/Company		Recorded Book Value
Champaign-Urbana Fund	$	77,852
Clearstack		450,000
Firefly Energy, Inc.		975,000
Harmonic Vision		261,000
Illinois Arch Fund Partnership		165,032
Influx, Inc. (now Protez Pharmaceuticals)		148,500
Jaros Technology Corporation		250,000
Lemko Corporation		300,000
Metalconforming Controls		575,000
Moire, Inc		600,000
Nephrx		110,000
Neuronautics		300,000
Open Channel Software		250,000
Smart Signal		293,848
Stonewater Software		4,759
Video Home Tour		250,000
Zuchem, Inc.		543,100
Total	$	5,554,091

The following sixteen (16) investees have zero values: Blackman & Young, Cerulean Fund, Delivery Station, Epigraph, Evantis (Cyberloan Officer), Go Reader, Mobitrac, Neodesic, Perceptual Robotics, Preview Port, Proof Space, U. Communications, User Active Media.com, Venture Capital Online, Cobotics, Wander On.

(7) Interfund Balances and Activity

Balances due to/from other funds and transfers made for the fiscal year ended June 30, 2007, were as follows:

Fund	Other major funds	Other nonmajor funds	Description/purpose
Due to:			Due from:
General Operating Fund	$ -	$2,341,426	Due from Venture Investment Fund for Long-Term loan
General Operating Fund	-	4,294	Due from Farmer Agribusiness Loan Guarantee Fund for Long-term Loan
Total Major Funds	-	2,345,720	
Nonmajor funds	-	712,373	Due from Venture Investment Fund for Long-term loan
Nonmajor funds	17,533	-	Due from Operating Fund for Long-term Loan
Total Nonmajor Funds	17,533	712,373	
Total	$ 17,533	$3,058,093	
Due from:			Due to:
General Operating Fund	$ -	$ 17,533	Due to IRBB Special Reserve for Long-term Loan
Total Major Funds	$ -	$ 17,533	
Nonmajor Funds	$2,341,426	$ -	Due to General Operating Fund for Long-Term Loan
Nonmajor Funds	4,294	-	Due to General Operating Fund for Long-Term Loan
Nonmajor Funds	-	200,000	Due to Illinois Housing Program for Long-Term Loan
Nonmajor Funds	-	512,373	Due to Industrial Revenue Bond Insurance Fund for Long-Term Loan
Total Nonmajor Funds	$2,345,720	$ 712,373	
Total	$2,345,720	$ 729,906	
Transfer to:			Transfer from:
General Operating Fund	$ 8,725	$ -	Transfer from Credit Enhancement Fund since funds are no longer needed for program
General Operating Fund	401,065	-	Transfer from Industrial Revenue Bond Insurance Fund since these funds were no longer needed for program
General Operating Fund	195,184	-	Transfer from IRBB General Fund Trust Fund for excess funds
General Operating Fund	65,599	-	Transfer from Illinois Housing Partnership Program for excess program fees
Total	$ 670,573	$ -	
Transfer from:			Transfer to:
Credit Enhancement Fund	$ -	$ 8,725	Tranfer to General Operating Fund for excess program funds
Industrial Revenue Bond Insurance Fund	-	401,065	Tranfer to General Operating Fund for excess program funds
IRBB General Fund Trust Fund	-	195,184	Tranfer to General Operating Fund for excess program funds
Illinois Housing Partnership Program	-	65,599	Transfer to General Operating Fund for excess program funds
Total	$ -	$ 670,573	

(8) Long-term Obligations

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

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

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

Long-term debt is summarized as follows:

		Rural Development Revolving Loan Fund
Balance, June 30, 2006	$	882,906
Less repayments		(54,846)
Balance, June 30, 2007		828,060
Less current portion		(55,394)
	$	772,666

Principal and interest payments of long-term debt at June 30, 2007, are due as follows:

		Principal		Interest		Total
Year ending June 30:						
2008	$	55,394	$	8,281	$	63,675
2009		55,948		7,727		63,675
2010		56,508		7,167		63,675
2011		57,073		6,602		63,675
2012		57,644		6,031		63,675
2013-2017		296,981		21,394		318,375
2018-2021		248,512		6,188		254,700
	$	828,060	$	63,390	$	891,450

(9) Revenue Bonds Payable

Each revenue bond issue is payable only out of the trust estate established for each issue. The trust estate is comprised of all rights, title and interest of the Authority in the local government securities, the purchase agreements, the intercept proceedings and all moneys and securities held in all funds and accounts under the indenture, except moneys and securities on deposit in the redemption fund which are for the payment of the principal and interest of bonds called for redemption prior to maturity. The assets of the Bond Fund are therefore classified as restricted assets on the Statement of Net Assets.

All bonds outstanding at June 30, 2007, are revenue bonds of the Authority and are payable solely from the revenues or funds pledged or available for their payment as authorized by the Act. Neither the faith and credit nor the taxing power of the State of Illinois is pledged to the payment of the principal or interest on the bonds. The Authority has the authority to issue $150,000,000 of moral obligation bonds. Bonds payable at June 30, 2007, are comprised of the following individual issues:

1992A Revenue Bonds – original issue $8,915,000, dated May 1, 1992, provides for serial retirement of principal on February 1, and interest payable on February 1 and August 1 of each year at rates of 3.70-6.45%. Final maturity is February 1, 2012

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

1993A Revenue Bonds – original issue $2,750,000, dated May 1, 1993, provides for serial retirement of principal on February 1, and interest payable on February 1 and August 1 of each year at rates of 3.000-6.125%. Final maturity is February 1, 2008.

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

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

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

1996C Revenue Bonds – original issue $3,765,000, dated December 30, 1996, provides for serial retirement of principal beginning February 1, 1997 and every February 1 thereafter, and interest payable on February 1 and August 1 of each year at rates of 4.10-5.65%. Final maturity is February 1, 2017.

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

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

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

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

1999A Revenue Bonds – original issue $2,520,000, dated June 1, 1999, provides for serial retirement of principal beginning February 1, 2000 and every February 1 thereafter, and interest payable on February 1 and August 1 of each year at rates of 3.45-5.40%. Final maturity is February 1, 2029.

1999B Revenue Bonds – original issue $4,520,000, dated September 1, 1999, provides for serial retirement of principal beginning February 1, 2000 and every February 1 thereafter, and interest payable on February 1 and August 1 of each year at rates of 3.70-5.75%. Final maturity is February 1, 2010.

2000A Revenue Bonds – original issue $5,145,000, dated June 1, 2000, provides for serial retirement of principal beginning February 1, 2001 and every February 1 thereafter, and interest payable on February 1 and August 1 of each year at rates of 4.65-6.00%. Final maturity is February 1, 2020.

2000B Revenue Bonds – original issue $735,000, dated December 1, 2000, provides for serial retirement of principal beginning February 1, 2001 and every February 1 thereafter, and interest payable on February 1 and August 1 of each year at rates of 4.40-4.75%. Final maturity is February1, 2025.

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

2001B Revenue Bonds – original issue $5,545,000, dated December 1, 2001, provides for serial retirement of principal beginning February 1, 2003 and every February 1 thereafter, and interest payable on February 1 and August 1 of each year at rates of 2.55-5.05%. Final maturity is February 1, 2031.

2002A Revenue Bonds – original issue $1,180,000, dated June 27, 2002, provides for serial retirement of principal beginning February 1, 2003 and every February 1 thereafter, and interest payable on February 1 and August 1 of each year at rates of 1.60-4.25%. Final maturity is February 1, 2022.

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

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

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

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

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

The future debt service requirements for revenue bonds as of June 30, 2007, including interest payments is as follows:

Total Revenue Bonds			
Fiscal Period Ending June 30	Principal	Interest	Total
2008	$4,470,000	$2,483,716	$6,953,716
2009	4,350,000	2,307,050	6,657,050
2010	3,750,000	2,128,376	5,878,376
2011	3,925,000	1,972,876	5,897,876
2012	4,465,000	1,811,493	6,276,493
2013-2017	15,295,000	6,690,098	21,985,098
2018-2022	11,655,000	3,323,539	14,978,539
2023-2027	5,510,000	1,108,930	6,618,930
2028-2032	1,870,000	281,438	2,151,438
2033-2036	60,000	7,350	67,350
	$55,350,000	$22,114,866	$77,464,866

The following is a summary of the revenue bond transactions of the Authority for the year ended June 30, 2007:

	Balance June 30, 2006	Additions	(Retirements)	Balance June 30, 2007	Amounts Due Within One Year
1991 B Bonds	$ 10,000	$ -	$ (10,000)	$ -	$ -
1992 A Bonds	95,000	-	(20,000)	75,000	15,000
1992 B Bonds	270,000	-	(30,000)	240,000	30,000
1993 A Bonds	85,000	-	(40,000)	45,000	45,000
1993 B Bonds	400,000	-	(45,000)	355,000	45,000
1994 A Bonds	500,000	-	(110,000)	390,000	115,000
1994 B Bonds	60,000	-	(60,000)	-	-
1995 A Bonds	245,000	-	(40,000)	205,000	45,000
1996 C Bonds	925,000	-	(210,000)	715,000	80,000
1997 A Bonds	1,665,000	-	(195,000)	1,470,000	205,000
1997 B Bonds	1,785,000	-	(155,000)	1,630,000	170,000
1998 A Bonds	5,985,000	-	(2,540,000)	3,445,000	475,000
1998 B Bonds	2,550,000	-	(190,000)	2,360,000	210,000
1999 A Bonds	1,670,000	-	(95,000)	1,575,000	105,000
1999 B Bonds	1,375,000	-	(430,000)	945,000	455,000
2000 A Bonds	1,035,000	-	(145,000)	890,000	155,000
2000 B Bonds	625,000	-	(25,000)	600,000	25,000
2001 A Bonds	2,485,000	-	(230,000)	2,255,000	160,000
2001 B Bonds	4,740,000	-	(225,000)	4,515,000	235,000
2002 A Bonds	900,000	-	(85,000)	815,000	90,000
2003 A Bonds	9,540,000	-	(690,000)	8,850,000	695,000
2003 B Bonds	9,300,000	-	(610,000)	8,690,000	620,000
2004 A Bonds	2,345,000	-	(125,000)	2,220,000	130,000
2006 A Bonds	11,505,000	-	(300,000)	11,205,000	350,000
2006 B Bonds	-	1,915,000	(55,000)	1,860,000	15,000
	$ 60,095,000	$ 1,915,000	$ (6,660,000)	$ 55,350,000	$ 4,470,000

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

Deferred Revenue June 30, 2006	Additional Fees Collected	Amortized Revenue	Deferred Revenue June 30, 2007	Amount Due Within One Year
$ 988,282	$ -	$ 147,677	$ 840,605	$116,664

(10) Advance Refunding of Debt

As of June 30, 2007 the amount of defeased moral obligation bonds outstanding is $4,610,000.

(11) Lease Commitments

The Authority is obligated under long-term operating leases for 4 of its 5 offices. The fifth is leased under a one year lease. The terms of the leases vary for each location. Total rent expense for the year ended June 30, 2007 was $305,776.

The Authority entered into a lease agreement to lease facilities at 180 N Stetson Avenue, Suite 2555, Chicago, Illinois 60601. The term of the lease is through August 2014. No payments are required under the terms of the lease for the period from June 21, 2004 through June 30, 2006. Annual base rent payments, which begin on July 1, 2006, range from approximately $119,000 to $149,000. In accordance with accounting principles generally accepted in the United States of America (GAAP), the total lease payments have been amortized over the term of the lease. Included in rent expense for the year ended June 30, 2007 is $107,349, which represents the current year amortization.

The Authority entered into a lease agreement to lease facilities at 427 E. Monroe Street, Suite 202, Springfield, Illinois 62701. The term of the lease is through April 2014. Annual base rent payments range from approximately $36,800 to $38,300.

The Authority entered into a lease agreement to lease facilities at 124 S.W. Adams Street, Suite 300, Peoria, Illinois 61602. The term of the lease is through October 2007. Annual base rent payments are approximately $4,000.

The Authority entered into a lease agreement to lease facilities at 2929 Broadway, Suite 7B, Mt. Vernon, Illinois 62864. The term of the lease is through March 2008. Annual base rent payments are approximately $20,900.

The future minimum lease commitments as of June 30, 2007 are as follows:

Fiscal Year Ending June 30,	Amount
2008	$ 163,796
2009	162,094
2010	168,958
2011	173,317
2012	177,676
2013-2015	386,847
	$ 1,232,688

Letter of Credit

The lease at Two Prudential Plaza requires a letter of credit of $85,000 as a security deposit. As of June 30, 2007 no amounts have been drawn against this letter of credit.

(12) Capital Assets

	Balance June 30, 2006	Additions	Deletions	Balance June 30, 2007
Cost				
Capital Assets Being Depreciated:				
Leasehold Improvements	$ 2,000	$ -	$ -	$ 2,000
Furniture and Equipment	203,864	108,995	5,500	307,359
Computers	49,051	1,503	-	50,554
Software	119,075	55,079	-	174,154
Total Capital Assets Being Depreciated	373,990	165,577	5,500	534,067
Accumulated Depreciation				
Leasehold Improvements	2,000	-	-	2,000
Furniture and Equipment	156,433	17,574	5,500	168,507
Computers	36,799	3,054	-	39,853
Software	29,088	34,112	-	63,200
Total Accumulated Depreciation	224,320	54,740	5,500	273,560
Capital Assets, Net of Depreciation	$ 149,670	$ 110,837	$ -	$ 260,507

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

(13) Commitments and Contingencies

(a) Debt Service Reserve

The Authority is contingently liable for any claims (maximum of amount held in the Debt Service Reserve in the non-major Credit Enhancement Fund) submitted by the respective Bond Trustees of the prior Illinois Development Finance Authority if the company liable under the bond indenture were to default on repayment of the bond. At June 30, 2007, restricted demand deposits totaling $1,353,380 were held in the Credit Enhancement Fund for this purpose.

(b) Federally Assisted Programs

The Authority participates in the following federally assisted programs:

E.D.A. Title IX–Restricted Revolving Loan Program

FmHA–Intermediary Relending Program

Demand deposits of $782,412 and $1,944,094 are held in the E.D.A. Title IX Restricted Revolving Loan Fund and the Rural Development Revolving Loan Fund, respectively, and are restricted due to federal program requirements. In addition, included in restricted assets is $338,074 in net loans receivable which secure the loans of the intermediary re-lending program.

(c) Loan Guarantees

The Authority has a contingent liability regarding the loan guarantees outstanding at June 30, 2007. When a guaranteed loan defaults, the Authority is responsible for 85% of the liability, with the participating lender being responsible for the remaining 15%. Any guarantee that must be paid out by the State of Illinois, because of a claim properly filed by a bank that has a guaranteed loan that has defaulted, becomes a receivable on the books of the Authority. The Authority must liquidate the loan collateral, and absorb any loss due to uncollectible amounts. Any recoveries on the defaulted loan are first used to repay the Authority's guarantee and then used to repay the lender. These future liabilities, if any, cannot be estimated. According to certifications received by the Authority from lenders, the maximum guarantees outstanding are:

State Guarantee Program for Restructuring Agricultural Debt	$ 33,886,977
Specialized Livestock Loan Guarantee Program	16,692,702
Young Farmer Loan Guarantee Program	2,732,252
Farmer and Agri-Business Loan Guarantee Program	15,704,865

(14) Risk Financing Activities

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

(15) Defined Contribution Plan

The Authority's Board of Directors approved the Illinois Finance Authority Deferred Compensation Plan. The Authority's Board of Directors has the power to amend the plan. The Plan is administered through the State of Illinois Department of Central Management Services; this plan is considered a defined contribution plan. This plan allows an employee to invest a portion of their salary in a choice of investment programs. Federal and State income taxes are deferred on the total amount through the plan as well as on investment earnings. However, the total contributions are subject to FICA taxes. The program provides a tax sheltered retirement account. An employee may begin participating in the Deferred Compensation Plan after 90 days of employment have been completed.

The maximum total annual contribution is determined yearly as shown in the schedule below. The Authority's maximum contribution is 10.5% of the gross salary earned. The maximum contributions through the year 2007 are:

YEAR	MAXIMUM CONTRIBUTION	AGE 50 CATCH UP
2007	$15,500	$20,000

Contribution Schedule until September 30, 2006:

a) Up to employee's 5th anniversary date: The employee defers a minimum of 4% of his/her gross annual salary earned, unless this amount would exceed the maximum annual contribution; In addition, the Authority contributes 6.5% of the employee's gross annual salary earned to the plan.
b) On the employee's 5th anniversary date **(completion of 5 years)** and up to his 6th anniversary date: The Authority contributes 6.5% of the employee's gross annual salary earned plus 20% of the employee's normal contribution up to a maximum of 10.5% of the earned salary.
c) On the employee's 6th anniversary date **(completion of 6 years)** and up to his 7th anniversary date: The Authority contributes 6.5% of the employee's gross annual salary earned plus 40% of the employee's normal contribution up to a maximum of 10.5% of the earned salary.
d) On the employee's 7th anniversary date **(completion of 7 years)** and up to his 8th anniversary date: The Authority contributes 6.5% of the employee's gross annual salary earned plus 60% of the employee's normal contribution up to a maximum of 10.5% of the earned salary.
e) On the employee's 8th anniversary date **(completion of 8 years)** and up to his 9th anniversary date: The Authority contributes 6.5% of the employee's gross annual salary earned plus 80% of the employee's normal contribution up to a maximum of 10.5% of the earned salary.
f) On the employee's 9th anniversary date **(completion of 9 years)** and thereafter: The Authority contributes 6.5% of the employee's gross annual salary earned plus 100% of the employee's normal contribution up to a maximum of 10.5% of the earned salary.

Effective October 1, 2006 the Authority amended the contribution schedule. The amended contribution schedule requires the Authority to match $2 for every $1 deferred by an eligible employee up to a maximum of 5% of an employee's salary. In order to participate in this plan an employee must contribute a minimum of 1% of their salary.

Total employer and employee contributions for fiscal year 2007 under both plans were $232,526 and $290,687, respectively.

(16) New Governmental Accounting Standards

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

GASB Statement No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions,* will be effective for the Authority beginning with its year ending June 30, 2008. This statement requires governments to recognize other postemployment benefit costs over a period that approximates employees' years of service.

Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligation*s, issued November 2006, is effective for the Authority beginning with its year ending June 30, 2009. This Statement establishes uniform standards requiring more timely and complete reporting of pollution remediation obligations.

Statement No. 50, *Pension Disclosures – an amendment to GASB Statements No. 25 and No. 27*. This Statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and enhances information disclosed in the notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The Authority is required to implement this Statement for the year ending June 30, 2008.

Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, establishes accounting and financial reporting requirements for intangible assets. All intangible assets not specifically excluded by the scope of this Statement should be classified as capital assets. All existing authoritative guidance for capital assets should be applied to these intangible assets, as applicable. The Authority is required to implement this Statement for the year ending June 30, 2010.

Management has not yet completed its assessment of the impact of this GASB Statement on the Authority's financial statements.

(17) Subsequent Events

On August 16, 2007 the Authority issued its Bond Bank Revenue Bonds, Series 2007-A in the amount of $6,455,000 at interest rates ranging from 3.70% to 4.85% maturing on February 1, 2039.

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

Combining Statement of Net Assets

Non-Major Funds

June 30, 2007

Assets	Industrial Revenue Bond Insurance Fund	Venture Investment Fund	Credit Enhancement Fund	Illinois Agricultrual Loan Guarantee Fund	Illinois Farmer Agribusiness Loan Guarantee Fund
Current assets:					
Cash and cash equivalents - unrestricted	$ 9,429,789	—	—	—	—
Investments - unrestricted	1,998,445	—	—	—	—
Restricted current assets					
Cash and cash equivalents	—	—	1,353,380	—	—
Accrued interest receivable	—	—	—	—	—
Loans Receivable	—	—	—	—	—
Allowance for doubtful accounts	—	—	—	—	—
Receivables					
Interest and other	35,247	—	—	—	—
Total current assets	11,463,481	—	1,353,380	—	—
Noncurrent assets:					
Restricted Noncurrent Assets					
Cash and cash equivalents	—	—	—	11,063,933	8,373,955
Interest Receivable	—	—	—	45,000	35,000
Guarantee payments receivable	—	—	—	170,902	288,146
Allowance for doubtful accounts	—	—	—	(170,902)	(262,624)
Loans receivable	—	—	—	—	—
Allowance for doubtful accounts	—	—	—	—	—
Investments in partnerships and companies	—	5,554,091	—	—	—
Loans receivable	—	—	—	—	—
Due from other funds long-term	512,373	—	—	—	—
Total noncurrent assets	512,373	5,554,091	—	11,108,933	8,434,477
Total assets	11,975,854	5,554,091	1,353,380	11,108,933	8,434,477
Liabilities					
Current liabilities:					
Accrued interest payable	—	—	—	—	—
Current portion of long term debt	—	—	—	—	—
Total current liabilities	—	—	—	—	—
Noncurrent liabilities					
Noncurrent portion of long-term debt	—	—	—	—	—
Due to other funds long term	—	3,053,799	—	—	4,294
Total Liabilities	—	3,053,799	—	—	4,294
Net Assets					
Restricted	—	—	1,353,380	11,108,933	8,430,183
Unrestricted	11,975,854	2,500,292	—	—	—
Total net assets	$ 11,975,854	2,500,292	1,353,380	11,108,933	8,430,183

See accompanying independent auditors’ report.

IRBB Special Reserve Fund	IRBB General Fund Trust Fund	E.D.A. Title IX Restricted Revolving Loan Fund	Rural Development Revolving Loan Fund	Employee Ownership Assistance Loan Fund	Illinois Housing Partnership Program	Fire Truck Revolving Loan Fund	Total nonmajor
1,787,273	—	—	—	—	1,823,794	—	13,040,856
—	—	—	—	—	—	—	1,998,445
—	—	—	—	—	—	1,941,117	3,294,497
—	—	—	—	—	—	8,000	8,000
—	—	91,484	87,531	—	—	481,750	660,765
—	—	(91,484)	—	—	—	—	(91,484)
26,064	—	—	—	—	—	—	61,311
1,813,337	—	—	87,531	—	1,823,794	2,430,867	18,972,390
—	—	782,412	1,944,094	—	—	—	22,164,394
—	—	—	1,578	—	—	—	81,578
—	—	—	—	—	—	—	459,048
—	—	—	—	—	—	—	(433,526)
—	—	—	367,440	—	—	7,765,965	8,133,405
—	—	—	(116,897)	—	—	—	(116,897)
—	—	—	—	—	—	—	5,554,091
973,243	—	—	—	1,000,000	3,000,000	—	4,973,243
17,533	—	—	—	—	200,000	—	729,906
990,776	—	782,412	2,196,215	1,000,000	3,200,000	7,765,965	41,545,242
2,804,113	—	782,412	2,283,746	1,000,000	5,023,794	10,196,832	60,517,632
—	—	—	4,140	—	—	—	4,140
—	—	—	55,394	—	—	—	55,394
—	—	—	59,534	—	—	—	59,534
—	—	—	772,666	—	—	—	772,666
—	—	—	—	—	—	—	3,058,093
—	—	—	832,200	—	—	—	3,890,293
—	—	782,412	1,451,546	—	—	10,196,832	33,323,286
2,804,113	—	—	—	1,000,000	5,023,794	—	23,304,053
2,804,113	—	782,412	1,451,546	1,000,000	5,023,794	10,196,832	56,627,339

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

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets

Non-Major Funds

For the Year Ended June 30, 2007

	Industrial Revenue Bond Insurance Fund	Venture Investment Fund	Credit Enhancement Fund	Illinois Agricultrual Loan Guarantee Fund	Illinois Farmer Agribusiness Loan Guarantee Fund
Operating revenues					
Interest on loans	$ —	—	—	—	—
Bad debt recoveries	—	—	—	25,091	6,748
Total operating revenues	—	—	—	25,091	6,748
Operating expenses					
Professional services	—	58,594	—	—	4,294
Depreciation	—	—	—	—	—
Interest expense	—	—	—	—	—
Loan Loss Provision	—	—	—	—	—
Total operating expenses	—	58,594	—	—	4,294
Operating income (loss)	—	(58,594)	—	25,091	2,454
Nonoperating revenues:					
Interest and investment income	516,034	26,280	4,755	551,334	416,081
Net appreciation in fair value of investments	14,023	138,212	—	—	—
Total nonoperating income	530,057	164,492	4,755	551,334	416,081
Income (loss) before other revenues, gains, losses and transfers	530,057	105,898	4,755	576,425	418,535
Capital contributions and transfers					
Transfers to other funds	(401,065)	—	(8,725)	—	—
Total capital contributions and transfers	(401,065)	—	(8,725)	—	—
Increase in net assets	128,992	105,898	(3,970)	576,425	418,535
Net assets – beginning of period	11,846,862	2,394,394	1,357,350	10,532,508	8,011,648
Net assets – end of period	$ 11,975,854	2,500,292	1,353,380	11,108,933	8,430,183

IRBB Special Reserve Fund	IRBB General Fund Trust Fund	E.D.A. Title IX Restricted Revolving Loan Fund	Rural Development Revolving Loan Fund	Employee Ownership Assistance Loan Fund	Illinois Housing Partnership Program	Fire Truck Revolving Loan Fund	Total nonmajor
34,766	157,688	—	29,951	—	—	—	222,405
—	—	—	—	—	—	—	31,839
34,766	157,688	—	29,951	—	—	—	254,244
—	—	—	65	—	—	—	62,953
—	1,100	—	—	—	—	—	1,100
—	110,166	—	8,555	—	—	—	118,721
—	—	—	101,518	—	—	—	101,518
—	111,266	—	110,138	—	—	—	284,292
34,766	46,422	—	(80,187)	—	—	—	(30,048)
108,928	20,881	39,693	52,777	—	65,599	85,902	1,888,264
—	—	—	—	—	—	—	152,235
108,928	20,881	39,693	52,777	—	65,599	85,902	2,040,499
143,694	67,303	39,693	(27,410)	—	65,599	85,902	2,010,451
—	(195,184)	—	—	—	(65,599)	—	(670,573)
—	(195,184)	—	—	—	(65,599)	—	(670,573)
143,694	(127,881)	39,693	(27,410)	—	—	85,902	1,339,878
2,660,419	127,881	742,719	1,478,956	1,000,000	5,023,794	10,110,930	55,287,461
2,804,113	—	782,412	1,451,546	1,000,000	5,023,794	10,196,832	56,627,339

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

Combining Statement of Cash Flows

Non-Major Funds

For the Year Ended June 30, 2007

		Industrial Revenue Bond Insurance Fund	Venture Investment Fund	Credit Enhancement Fund	Illinois Agricultrual Loan Guarantee Fund	Illinois Farmer Agribusiness Loan Guarantee Fund
Cash flows from operating activities:						
Cash received for interest on loans	$	—	—	—	—	—
Cash received on loan receivables and guarantees		—	—	—	25,091	60,882
Cash payments on loan receivables and guarantees		—	—	—	—	—
Cash payments to suppliers for goods and services		—	(58,594)	—	—	(4,294)
Net cash provided by (used in) operating activities		—	(58,594)	—	25,091	56,588
Cash flows from noncapital financing activities:						
Due from other funds		—	—	—	—	—
Due to other funds		—	83,459	—	—	4,294
Transfers from (to) other funds		(401,065)	—	(8,725)	—	—
Bonds and notes principal payments		—	—	—	—	—
Interest payments		—	—	—	—	—
Net cash provided by (used in) noncapital financing activities		(401,065)	83,459	(8,725)	—	4,294
Cash flows from investing activities:						
Purchase of investments		(4,983,893)	(615,000)	—	—	—
Sales and maturities of investments		2,999,160	563,856	—	—	—
Interest and dividends on investments		487,869	26,279	4,755	546,334	411,081
Net cash provided by investing activities		(1,496,864)	(24,865)	4,755	546,334	411,081
Net increase (decrease) in cash and cash equivalents		(1,897,929)	—	(3,970)	571,425	471,963
Cash and cash equivalents at beginning of period		11,327,718	—	1,357,350	10,492,508	7,901,992
Cash and cash equivalents at end of period	$	9,429,789	—	1,353,380	11,063,933	8,373,955
Reconciliation of operating income to net cash provided by (used in) operating activities:						
Operating income	$	—	(58,594)	—	25,091	2,454
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:						
Depreciation		—	—	—	—	—
Amortization of bond issuance costs		—	—	—	—	—
Interest expense		—	—	—	—	—
Changes in assets and liabilities:						
Accrued interest		—	—	—	—	—
Loans/Guarantees receivable		—	—	—	—	54,134
Deferred revenue		—	—	—	—	—
Net cash provided by (used in) operating activities	$	—	(58,594)	—	25,091	56,588

See accompanying independent auditors' report.

IRBB Special Reserve Fund	IRBB General Fund Trust Fund	E.D.A. Title IX Restricted Revolving Loan Fund	Rural Development Revolving Loan Fund	Employee Ownership Assistance Loan Fund	Illinois Housing Partnership Program	Fire Truck Revolving Loan Fund	Total nonmajor
10,553	10,011	—	28,373	—	—	—	48,937
18,257	—	—	171,239	—	1,000,000	518,722	1,794,191
(915,000)	—	—	(317,000)	—	—	—	(1,232,000)
—	—	—	(65)	—	—	—	(62,953)
(886,190)	10,011	—	(117,453)	—	1,000,000	518,722	548,175
(17,533)	—	—	—	—	—	—	(17,533)
—	—	—	—	—	—	—	87,753
—	(463,553)	—	—	—	(65,599)	—	(938,942)
—	—	—	(54,846)	—	—	—	(54,846)
—	—	—	(8,829)	—	—	—	(8,829)
(17,533)	(463,553)	—	(63,675)	—	(65,599)	—	(932,397)
—	—	—	—	—	—	—	(5,598,893)
—	—	—	—	—	—	—	3,563,016
108,928	20,881	39,693	52,777	—	65,599	83,902	1,848,098
108,928	20,881	39,693	52,777	—	65,599	83,902	(187,779)
(794,795)	(432,661)	39,693	(128,351)	—	1,000,000	602,624	(572,001)
2,582,068	432,661	742,719	2,072,445	—	823,794	1,338,493	39,071,748
1,787,273	—	782,412	1,944,094	—	1,823,794	1,941,117	38,499,747
34,766	46,422	—	(80,187)	—	—	—	(30,048)
—	1,100	—	—	—	—	—	1,100
—	110,166	—	—	—	—	—	110,166
—	—	—	8,555	—	—	—	8,555
(24,213)	—	—	(1,578)	—	—	—	(25,791)
(896,743)	—	—	(44,243)	—	1,000,000	518,722	631,870
—	(147,677)	—	—	—	—	—	(147,677)
(886,190)	10,011	—	(117,453)	—	1,000,000	518,722	548,175

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
and
Mr. William A. Brandt, Jr.
Honorable Chairman of the Board of Directors
Illinois Finance Authority

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, a component unit of the State of Illinois as of and for the year ended June 30, 2007, which collectively comprise State of Illinois, Illinois Finance Authority's basic financial statements and have issued our report thereon dated January 25, 2008. 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 State of Illinois, Illinois Finance Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State of Illinois, Illinois Finance Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State of Illinois, Illinois Finance Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We are currently conducting a State and Federal compliance examination of the State of Illinois, Illinois Finance Authority as required by the Illinois State Auditing Act. The results of that examination will be reported to management under separate cover.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the Authority's management, the Authority's Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

Schaumburg, Illinois
January 25, 2008