



STATE OF ILLINOIS
**OFFICE OF THE
 AUDITOR GENERAL**

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

ILLINOIS FINANCE AUTHORITY

**Financial Audit
 For the Year Ended June 30, 2015**

Release Date: January 28, 2016

FINDINGS THIS AUDIT: 2	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	1	0	1	2013		15-2	
Category 2:	0	1	1				
Category 3:	0	0	0				
TOTAL	1	1	2				
FINDINGS LAST AUDIT: 2							

INTRODUCTION

This digest covers the Authority’s financial audit as of and for the year ended June 30, 2015. The Authority’s compliance examination for the two years ended June 30, 2015, will be issued at a later date.

SYNOPSIS

- **(15-1)** The Authority had financial reporting problems within the Industrial Project Insurance Fund, the Illinois Agricultural Loan Guarantee Fund, and the Illinois Farmer and Agribusiness Loan Guarantee Fund.

Category 1: Findings that are **material weaknesses** in internal control and/or a **qualification** on compliance with State laws and regulations (material noncompliance).
Category 2: Findings that are **significant deficiencies** in internal control and **noncompliance** with State laws and regulations.
Category 3: Findings that have **no internal control issues but are in noncompliance** with State laws and regulations.

{Financial information is summarized on next page.}

ILLINOIS FINANCE AUTHORITY
FINANCIAL AUDIT
For the Year Ended June 30, 2015

STATEMENT OF NET POSITION (in thousands)	2015	2014
Assets		
Cash and cash equivalents.....	\$ 6,955	\$ 7,377
Investments.....	25,187	30,778
Receivables.....	25,581	31,141
Restricted cash and cash equivalents.....	113,118	133,518
Restricted investments.....	20,717	51,648
Restricted receivables.....	99,854	121,513
Other.....	8,313	9,288
Total Assets.....	299,725	385,263
Deferred Outflows of Resources		
Net loss on debt refundings.....	767	971
Total.....	767	971
Liabilities		
Accounts payable and accrued liabilities.....	598	800
Bonds payable.....	159,306	185,926
Other.....	23,319	82,562
Total Liabilities.....	183,223	269,288
Net Position		
Net investment in capital assets.....	70	119
Restricted.....	59,904	48,224
Unrestricted.....	57,295	68,603
Total.....	\$ 117,269	\$ 116,946

REVENUES, EXPENSES, AND CHANGES IN NET POSITION (in thousands)	2015	2014
Revenues		
Interest on loans.....	\$ 5,183	\$ 5,944
Interest and investment income.....	643	2,209
Administrative service fees.....	2,921	3,573
Other.....	575	25,858
Total Revenues.....	9,322	37,584
Expenses		
Interest expense.....	4,280	7,820
Employee-related expenses.....	1,702	1,712
Professional services.....	1,540	1,658
Other.....	1,478	4,942
Total Expenses.....	9,000	16,132
Change in net position.....	\$ 322	\$ 21,452

EXECUTIVE DIRECTOR
During Audit Period: Mr. Christopher B. Meister
Currently: Mr. Christopher B. Meister

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

**NONCOMPLIANCE IMPACTING THE AUTHORITY'S
FINANCIAL REPORTING PROCESS**

The Illinois Finance Authority (Authority) had financial reporting problems within the Industrial Project Insurance Fund, the Illinois Agricultural Loan Guarantee Fund, and the Illinois Farmer and Agribusiness Loan Guarantee Fund. These financial reporting problems, if not identified and corrected, would have resulted in a material misstatement of the Authority's financial statements.

During testing, some of the financial reporting issues noted by the auditors included the following:

Contingent liability of \$562,675 recorded within the wrong fund

- The Authority improperly classified an actuary's calculation of potential liabilities from guarantee claims, totaling \$562,675, as a liability of the Industrial Project Insurance Fund as opposed to a liability of the Illinois Farmer and Agribusiness Loan Guarantee Fund.

Legal settlement recorded in and paid from the wrong fund

- The Authority improperly classified a claim arising from the settlement of litigation regarding a guarantee claim, totaling \$155,000, as a liability of the Industrial Project Insurance Fund as opposed to a liability of the Illinois Agricultural Loan Guarantee Fund. Further, the Authority ultimately improperly paid this liability in September 2015 from the Industrial Project Insurance Fund.

Improper accrual of a contingent liability, totaling \$494,851

- The Authority improperly accrued a potential contingent liability within the Industrial Project Insurance Fund arising from the Authority's guarantee of the indebtedness of an agribusiness, totaling \$494,851. Authority officials accrued the liability on the basis of significant concentration risk; however, the actuarial report commissioned by the Authority for this particular borrower only noted general operational risks.

Restricted resources improperly reported as unrestricted

- The Authority failed to recognize a restriction on the uses of the resources within the Industrial Project Insurance Fund. The Authority's draft financial statements reported the net position of the Industrial Project Insurance Fund as unrestricted when its net position should have been reported as restricted for locally-held agricultural guarantees.

The auditors proposed adjusting entries to correct these financial reporting errors, which the Authority recorded in its final financial statements. (Finding 1, pages 60-68)

We recommended the Authority recognize liabilities and pay claims arising from its agricultural guarantees from the Illinois

Agricultural Loan Guarantee Fund and the Illinois Farmer and Agribusiness Loan Guarantee Fund, or seek a legislative remedy. Further, the Authority should enhance its procedures to review any changes to its regulatory environment for any potential impact on the Authority's financial reporting process and accrue contingent liabilities only when the potential for loss meets the requirements of Governmental Accounting Standards Board Statement No. 62. Finally, we recommended the Authority, if it continues to disagree with the auditors' position, seek a formal written opinion from the Attorney General.

Authority officials disagree

The Authority did not accept this finding because, in its opinion, the finding is based upon an incorrect legal interpretation. The Authority provided an analysis of its ability to record and pay liabilities arising from agricultural guarantees from the Industrial Project Insurance Fund.

Auditors' Comment

In an auditors' comment, we noted Article 830 of the Illinois Finance Authority Act (Act) authorizes the Authority to issue State Guarantees for farmers' existing debts held by a lender [20 ILCS 3501/830-30(a)], creates the Illinois Agricultural Loan Guarantee Fund [20 ILCS 3501/830-30(c)], and directs that "[a]ll payments by the Authority shall be made from the Illinois Agricultural Loan Guarantee Fund to satisfy claims against the State Guarantee" [20 ILCS 3501/830-30(c)]. Parallel provisions authorize the Authority to issue State Guarantees to lenders for loans to eligible farmers and agribusinesses [20 ILCS 3501/830-35(a)], establishes the Illinois Farmer and Agribusiness Loan Guarantee Fund [20 ILCS 3501/830-35(c)], and directs that "[a]ll payments by the Authority shall be made from the Illinois Farmer and Agribusiness Loan Guarantee Fund to satisfy claims against the State Guarantee" [20 ILCS 3501/830-35(c)].

Article 805 of the Act created the Industrial Project Insurance Fund to provide bond or loan insurance for approved industrial projects. There is approximately \$11.8 million in the Industrial Project Insurance Fund, but there are no outstanding bonds or loans and no further projects have been approved under this program; therefore, the money in the Industrial Project Insurance Fund is available for other uses.

Consequently, Public Act 096-0897, effective May 24, 2010, amended the Act to allow the use of moneys in the Industrial Project Insurance Fund to pay claims on the State Guarantees made pursuant to Article 830 of the Act.

The finding acknowledges the Authority's ability to transfer amounts in the Industrial Project Insurance Fund to either the Illinois Agricultural Loan Guarantee Fund and the Illinois Farmer and Agribusiness Loan Guarantee Fund in order to pay claims on the State Guarantees made under Article 830. However, we do not agree that this ability to use amounts in the Industrial Project Insurance Fund makes claims under the

State Guarantee programs liabilities of the Industrial Project Insurance Fund since the statute specifically provides that payments for claims under the State Guarantee programs must be made from the Illinois Agricultural Loan Guarantee Fund and the Illinois Farmer and Agribusiness Loan Guarantee Fund. Any other interpretation of Public Act 096-0897 creates conflict among the provisions and renders language existing prior to Public Act 096-0897 meaningless.

As the Authority disagrees with the statutory interpretation conclusions reached by the auditors, we continue to recommend the Authority refer this matter to the Attorney General who, by law, is charged with rendering opinions to State officials on matters of statutory interpretation. 15 ILCS 205/4. In areas of disagreement over statutory interpretation, the Auditor General's Office defers to a formal written opinion from the Attorney General on the matter.

OTHER FINDING

The remaining finding pertains to failing to write-off uncollectible balances from non-conduit debt and investments in partnerships and companies with no value. This finding is reportedly being given attention by the Authority.

We will review the Authority's progress towards the implementation of our recommendations in our next audit.

AUDITOR'S OPINION

The auditors stated the financial statements of the Illinois Finance Authority as of and for the year ended June 30, 2015, are fairly stated in all material respects.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

FJM:djn

SPECIAL ASSISTANT AUDITORS

Our Special Assistant Auditors for this audit were E.C. Ortiz & Co., LLP.