State of Illinois
Illinois Finance Authority

Financial Audit
For the Year Ended June 30, 2016

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, 2016

Table of Contents

Agency Officials

Chairman of the Board of Directors	Mr. R. Robert Funderburg, Jr.
Executive Director	Mr. Christopher Meister
Chief Financial Officer	Ms. Melinda M. Gildart (3/27/2014 – 8/17/2016)
Controller	Ms. Ximena Granda
General Counsel	Ms. Elizabeth Fleming Weber

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

Member	Mr. R. Robert Funderburg, Jr.
Member	Ms. Gila J. Bronner
Member	Mr. James J. Fuentes
Member	Mr. Michael W. Goetz
Member	Mr. Lerry Knox
Member	Mr. Terrence M. O'Brien
Member	Mr. Roger Poole
Member	Mr. Bradley A. Zeller
Member	Mr. Eric Anderberg
Member	Mr. Robert Horne
Member	Ms. Arlene Juracek
Member	Mr. Lyle McCoy
Member	Mr. John Yonover
Member (7/25/16 - Present)	Ms. Beth Smoots
Member (7/8/16 – Present)	Mr. George Obernagel
Member (7/1/14 – 7/31/15)	Mr. Norman M. Gold
Member (7/1/14 -7/31/15)	Mr. Edward Leonard, Sr.
Member (7/1/14 – 1/4/16)	Mr. Barrett F. Pedersen
Member (10/5/12-7/25/16)	Mr. Mordecai Tessler
Member (9/9/15 – 3/17/16)	Mr. Adam Israelov

Financial Statement Report

Summary

The audit of the financial statements of the Illinois Finance Authority (Authority) was performed by RSM US LLP in accordance with *Government Auditing Standards*. This report is an integral part of that audit.

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

Summary of Findings

The auditors identified a matter involving the Authority's failure to write off uncollectible balances that they considered to be a significant deficiency. This significant deficiency is 2016-001, Failure to Write Off Uncollectible Balances.

Exit Conference

The Authority waived an exit conference in correspondence dated December 7, 2016. Response to the recommendation was provided by Chris Meister, Executive Director, in correspondence dated December 7, 2016.

Independent Auditor's Report

Honorable Frank J. Mautino
Auditor General
State of Illinois

and

Board of Directors
Illinois Finance Authority

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of the State of Illinois, Illinois Finance Authority, a component unit of the State of Illinois, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the State of Illinois, Illinois Finance Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information for the Authority, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the State of Illinois, Illinois Finance Authority are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only the State of Illinois, Illinois Finance Authority, and they do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2016, and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6-18 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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 combining statement of net position – nonmajor funds, combining statement of revenues, expenses and changes in fund net position – nonmajor funds, and combining statement of cash flows – nonmajor funds are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining statement of net position – nonmajor funds, combining statement of revenues, expenses and changes in fund net position – nonmajor funds, and combining statement of cash flows – nonmajor funds are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statement of net position – nonmajor funds, combining statement of revenues, expenses and changes in fund net position – nonmajor funds, and combining statement of cash flows – nonmajor funds is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2016 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Illinois, Illinois Finance Authority's internal control over financial reporting and compliance.

Restricted Use of this Auditor's Report

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

SIGNED ORIGINAL ON FILE

Schaumburg, Illinois
December 16, 2016

Our discussion and analysis of the financial performance of the Illinois Finance Authority, a component unit of the State of Illinois, provides an overview of financial activities for the fiscal year ended June 30, 2016. Because the intent of this management discussion and analysis is to look at financial performance as a whole, readers should also review the financial statements, and notes to the basic financial statements, to further enhance their understanding of the Authority's financial performance.

Financial Highlights

On the basic financial statements, statement of net position, liabilities totaled $152.3 million, while assets and deferred outflows equaled $270.9 million, with decreases of $30.9 million and $29.6 million from Fiscal Year 2015, respectively. The overall decrease in total assets was driven by lower cash balances resulting from cash transfers from the Authority's locally held funds to the Illinois State Treasurer (on behalf of the Illinois Environmental Protection Agency, "IEPA") and due to the loan repayments on bonds and notes receivable from the primary government. Noncurrent assets specifically, were $30.0 million lower than last fiscal year. The decrease in total liabilities directly resulted from no new bond issuances made in Fiscal Year 2016 on behalf of other State of Illinois component units. Noncurrent liabilities, specifically, were $22.4 million lower than Fiscal Year 2015 primarily due to the reduction in the amount currently due to the State of Illinois for the Clean Water Initiative bonds.

On the statement of revenues, expenses and net position, total revenues were $10.5 million or 12.8% higher and total expenses were $9.1 million, or 1.4% higher than the previous fiscal year. In effect, the overall revenues (not including nonrecurring transfers from the State of Illinois) were $1.2 million higher than the prior year. Operating expenses were higher than Fiscal Year 2015 by $208 thousand. This increase was primarily driven by higher professional services due to temporary staffing. Nonoperating revenues/expenses increased by $453 thousand in Fiscal Year 2016, driven by interest and investment income due to the prompt payment interest from the State Receivables program and an adjustment to record loan loss reserve and settlements totaling $122 thousand in the nonmajor funds.

Overall net position of $118.7 million was $1.4 million or 1.2% higher than Fiscal Year 2015, due to the operating results for Fiscal Year 2016.

The Authority did not issue any new bonds on behalf of other State of Illinois component units during Fiscal Year 2016.

The Authority supports its operations mainly with fees charged in connection with the issuance of conduit bonds, not with State tax dollars appropriated by the Illinois General Assembly. The Authority's ability, both under State statute and from an enterprise perspective, to support its operations without State tax dollars appropriated by the General Assembly, generally limits the impact of the State budget issues on the Authority's balance sheet and operations with the exception of certain specific programs and transactions (agricultural guarantee programs; State component parts; moral obligation/contingent State taxpayer guarantees; fire truck and ambulance loans programs). Despite this degree of autonomy from the State budget, the Authority is a creation of State statute and its financial operations are included within and reported as a component part of the State of Illinois in its audited Comprehensive Annual Financial Report ("CAFR").

Fiscal Year 2016 was unique from a State budget perspective. Following an extended impasse, a stopgap appropriations bill was enacted along with an implementation act on June 30, 2016, the last day of the reporting period for Fiscal Year 2016. See, Public Act 99-0524 and Public Act 99-0523 (collectively, the "Stopgap Appropriations").

In connection with the budget impasse, the Authority took the following public actions consistent with law in order to (i) avoid unnecessary financial harm to the State and (ii) avoid life and health safety risks to those under the custody or care of the State of Illinois or to certain State employees and those members of the public availing themselves of the services provided by those certain State employees.

In August 2015, the Authority extended funds without interest, in the amount of $1.4 million to a State statutory special district, the Southwestern Illinois Development Authority for the refilling of a debt service reserve in connection with certain bonds enhanced by the State's moral obligation (contingent taxpayer guarantee) pledge ("SWIDA Bonds"). The Authority's actions with respect to the SWIDA Bonds likely avoided certain costs to State taxpayers and the Authority was repaid, in full and with reimbursement for its costs, on August 10, 2016.

Between December 2015 and July 2016, the Authority acquired receivables in the amount of $4.9 million from certain vendors to certain State agencies pursuant to one or more assignment agreements with such vendors which includes assignment of the applicable vendor's right to statutory prompt payment interest. 30 ILCS 540 *et seq.* In connection with the receivable acquisition, the relevant State agency certified to the Authority that the provision of goods or services by the relevant vendor were essential to ongoing, core operations of the State because of one or more of the following reasons applied: (1) threats to public health or public safety, or (2) if immediate expenditure is necessary for repairs to state property, in order to protect against further loss or damage to state property, or (3) to prevent or minimize serious disruption for critical state services that affect health, safety or collection of substantial state revenues, or (4) to ensure the integrity of state records. As of September 30, 2016, the Authority had been paid $4.4 million in principal and $128 thousand in statutory prompt payment interest with respect to certain receivables.

In April 2016, the Authority entered into a memorandum of understanding with the State Department of Human Services and advanced $538 thousand in order to maintain services and housing to certain particularly vulnerable Illinois residents suffering from mental illness. As of September 30, 2016, the Authority had been repaid the entire amount through a grant by the Department of Human Services.

In November and December 2015, the Authority explored moving forward with a potential State receivables transaction backed by the State moral obligation (contingent taxpayer guarantee). This exploration was noted in the Authority's Fiscal Year 2015 Financial Audit. The Authority decided not to pursue this potential transaction.

The Authority is governed by a 15-person volunteer board that is appointed by the Governor and confirmed by the Senate. The Authority has 14 employees who do not participate in the State's pension or health insurance program.

Overview of the Financial Statements

The basic proprietary fund financial statements including the Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, Statement of Cash Flows and Statement of Fiduciary Net Position-Agency Fund, provide both short-term and long-term information about the Authority's financial status. The accompanying notes to the financial statements provide essential information that is not disclosed on the face of the financial statements, and as such, are an integral part of the basic financial statements.

Proprietary Funds

These funds are used to show activities that operate more like those of commercial enterprises. Because these funds charge user fees for services provided to outside customers including local governments, they are known as enterprise funds. Proprietary funds use the accrual basis of accounting and provide both long and short-term financial information. The proprietary fund financial statements provide separate information for the Authority's two major Funds, which consist of the General Operating Fund and the Other State of Illinois Debt Fund, and also the remaining aggregated nonmajor proprietary funds. The Authority's proprietary fund financial statements consist of:

- The **Statement of Net Position** which presents the financial position of the Authority as of June 30, 2016, and includes all assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the Authority.

- The **Statement of Revenues, Expenses and Changes in Net Position** which presents the Authority's results of operations. The Authority's revenues and expenses are classified into three categories: operating, nonoperating, or fund transfers.

- The **Statement of Cash Flows** which provides additional information about the Authority's financial results by reporting the major sources and uses of the Authority's cash.

Fiduciary Funds

Fiduciary funds are used primarily to account for resources held for the benefit of parties outside of the primary government. The Authority is the agent, or fiduciary, for specific transactions attributable to the Metro East Police District Commission ("MEPDC"). The Authority uses a fiduciary fund to account for transactions for assets held by the Authority as agent for MEPDC.

For the transactions authorized by the Metro East Police District Act (70 ILCS 1750/15) and the Illinois Finance Authority Act (20 ILCS 3501/825-115), the Authority is responsible for ensuring that the assets reported in these funds are used for their intended purposes. Fiduciary funds are reported in a separate statement of fiduciary net position with the fund accounting being much like that used for proprietary funds.

Component Unit

The Illinois Finance Authority NFP Development Fund is reported as a blended component unit. Activities for this fund are presented in the combining schedules for the nonmajor funds.

Notes to the Basic Financial Statements

The notes provide additional information that is essential for a full understanding of data provided in the Authority's financial statements. The notes to the basic proprietary fund financial statements can be found immediately following the fiduciary fund basic financial statements.

Additional Information

The combining statements, which include nonmajor funds, are presented immediately following the notes to the basic financial statements.

Condensed Statement of Net Position
(Amounts in Thousands)

	Business-type Activities			
	2016	**2015**	**Difference ($)**	**Change (%)**
Current assets	$ 131,700	$ 131,171	$ 529	0.4%
Capital assets, net	29	70	(41)	-58.6%
Noncurrent assets	138,601	168,484	(29,883)	-17.7%
Total assets	270,330	299,725	(29,395)	-9.8%
Total deferred outflow of resources	577	767	(190)	-24.8%
Total assets and deferred ouflows of resources	270,907	300,492	(29,585)	-9.8%
Current liabilities	30,629	39,200	(8,571)	-21.9%
Noncurrent liabilities	121,624	144,023	(22,399)	-15.6%
Total liabilities	152,253	183,223	(30,970)	-16.9%
Net investment in capital assets	29	70	(41)	-58.6%
Restricted	60,696	59,904	792	1.3%
Unrestricted	57,929	57,295	634	1.1%
Total net position	$ 118,654	$ 117,269	$ 1,385	1.2%

Current assets of $131.7 million increased $529 thousand or 0.4%, primarily due to the increase in due from local government agencies of $2.3 million, the shortening of maturities in the Authority's investment portfolio, which resulted in a $5.3 million increase in current assets, and an increase of $4.9 million increase in accounts receivable due to the Authority's participation in the state receivable program. These increases were offset by a decrease in current cash and cash equivalents of $8.1 million and a $3.3 million decrease in the securities lending collateral equity with the State Treasurer.

Capital assets, net of depreciation decreased $41 thousand or 58.6% due to the retirement of assets and a reduction in overall equipment purchases.

Noncurrent assets of $138.6 million decreased $29.9 million or 17.7% due to the maturation of investments across all funds and due to payment from bonds and notes receivable from primary government and State component units.

Current liabilities of $30.6 million decreased $9.0 million or 21.9% primarily due to the securities lending transactions under the State Treasurer and the current portion of the bonds and notes payable.

Noncurrent liabilities decreased $22.4 million or 15.6%, due to the debt payments on outstanding debt on behalf of the other State of Illinois component units.

Net position may serve, over a period of time, as a useful indicator of the Authority's financial position. As of June 30, 2016, total net position was $118.7 million, an increase of $1.4 million or 1.2% from the balance of $117.3 million in Fiscal Year 2015. Of this amount, $29 thousand represents the Authority's net investment in capital assets. Restricted net position of $60.7 million is reported separately to present legal constraints from debt covenants, grantors and/or enabling legislation. The $57.9 million of unrestricted net position represents the excess the Authority would experience if it had to liquidate all of its non-capital liabilities as of June 30, 2016.

The following table presents the changes in net position from Fiscal Year 2015 to 2016:

Changes in Net Position
(Amounts in Thousands)

	Business-type Activities			
	2016	**2015**	**Difference ($)**	**Change (%)**
Revenues:				
Closing fees	$ 3,707	$ 2,356	$ 1,351	57.3%
Annual fees	342	365	(23)	-6.3%
Administrative service fees	114	136	(22)	-16.2%
Application fees	54	45	9	20.0%
Miscellaneous fees	20	20	-	0.0%
Interest income - loans	4,804	5,183	(379)	-7.3%
Transfer of funds and interest in program from the State of Illinois	426	448	(22)	-4.9%
Bad debt recoveries and other	145	127	18	14.2%
Interest and investment income	900	643	257	40.0%
Total revenues	10,512	9,323	1,189	12.8%
Expenses:				
Employee related expenses	1,799	1,702	97	5.7%
Professional services	1,937	1,540	397	25.8%
Occupancy costs	245	271	(26)	-9.6%
General and administrative	405	382	23	6.0%
Depreciation and amortization	48	53	(5)	-9.4%
Interest expense	4,002	4,280	(278)	-6.5%
Bad debt expenses and other	691	772	(81)	-10.5%
Total expenses	9,127	9,000	127	1.4%
Change in net position	1,385	323	1,062	328.8%
Net position - beginning	117,269	116,946	323	0.3%
Net position - ending	$ 118,654	$ 117,269	$ 1,385	1.2%

Operating revenues included closing fees from conduit bond issuances of $3.7 million, an increase of $1.4 million or 57.3%, due to the increase in number of conduit transaction closings in Fiscal Year 2016. Annual, administrative service, application, and miscellaneous fees showed a collective decrease of $36 thousand or 6.4%, from the reduced number of applications and the wind down of legacy loans with decreased balances, thus generating lower annual fees. The interest income on loans shows a net decrease from Fiscal Year 2015 of $379 thousand, or 7.3%, due to the decrease on outstanding loans from the local governments formerly participating in the Illinois Rural Bond Bank program and due to the lower amount of outstanding loans in regards to other State of Illinois component unit debt. Interest and investment income of $900 thousand, was higher than Fiscal Year 2015 by 39.9%, driven mostly by the prompt payment interest from the State Receivables program and better returns from investments.

All expenses totaled $9.1 million in Fiscal Year 2016, with an increase in professional services from Fiscal Year 2015 driven by increased temporary staffing fees, audit costs and legal fees.

Capital Assets

The Authority has established a policy of capitalizing assets as described in Note 1 to the financial statements. The Authority's investment in capital assets, net of accumulated depreciation, for business-type activities as of June 30, 2016 was $29 thousand.

Additional information about capital assets can be found in Note 10 to the financial statements.

	2016	2015	Difference ($)	Change (%)
Furniture and equipment	$ 194	$ 195	$ (1)	-0.5%
Computers	131	131	-	0.0%
Software	288	288	-	0.0%
Total capital assets	613	614	(1)	-0.2%
Less: accumulated depreciation	(584)	(544)	(40)	7.4%
Total capital assets, net	$ 29	$ 70	(41)	-58.6%

Long Term Debt Obligations

Long-term debt is incurred only to raise the capital necessary 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 Authority's primary program, business line, and revenue source is the issuance of ***federally tax-exempt conduit bonds*** mainly on behalf of non-profit borrowers for projects in the hospital, education, cultural, senior living, and government sectors as allowed by the federal tax code and State law. The Authority also issues conduit bonds on behalf of certain individuals and for-profit companies (beginning farmers; industrial revenue projects; solid waste projects) but in recent years, these "for-profit" projects have been far fewer in number and dollar volume than the Authority's non-profit and governmental projects.

From a credit and security perspective, tax-exempt conduit bonds generally pose ***no (or little) risk*** to the Authority's funds and reputation as (i) the key credit decision is made, not by the Authority, but by the lender, either bond buyers or banks making a direct purchase of conduit bonds, and (ii) it is the borrower's decision to move forward with borrowing for a qualified tax-exempt project under the federal tax code. In a conduit transaction, the borrower undertakes the obligation to repay and the lender (bond holder or bank) undertakes the obligation to lend.

The majority of the Authority's debt is classified as conduit debt. Under generally accepted accounting principles conduit debt refers to certain limited-obligation revenue bonds issued for the express purpose of providing capital financing for a specific third party. All of the Authority's conduit debt is payable solely from revenues or funds pledged or available for their repayment as authorized by the Illinois Finance Authority 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 these bonds. In accordance with generally accepted accounting principles, the Authority's conduit debt obligations are not reported as liabilities in the Authority's basic financial statements. The Authority issued 40 (does not include Beginning Farmer Bonds) separate conduit debt issues in Fiscal Year 2016 with an aggregate principal amount of $3.78 billion.

The Authority also issues revenue bonds for the purpose of providing loans to other agencies and component units of the State of Illinois. Although similar to conduit bonds, since these bonds are issued for the benefit of third parties that are part of the Authority's financial reporting entity, they do not meet the definition of conduit debt under generally accepted accounting principles and thus are reported as liabilities on the Authority's basic financial statements. As of June 30, 2016, the aggregate amount of intra-state debt outstanding is $134.8 million, a decrease of $24.1 million.

The Illinois Finance Authority Act also allows the Authority to issue revenue bonds with the State's moral obligation attached (contingent taxpayer guarantee on outstanding bonds). This pledge states that in the event that money will not be available for the payment of principal and interest of these obligations, the Governor is to request the shortfall amount be appropriated by the General Assembly. The Authority did not issue any revenue bonds with the State's moral obligation in Fiscal Year 2016. As of June 30, 2016, the aggregate amount of revenue bonds with the State's moral obligation attached is $34.9 million.

In addition to its revenue bonds, the Authority also has outstanding loans with the U.S. Department of Agriculture for $309 thousand. These loans were incurred to provide the funding for the Authority's Rural Development Loan Program.

Additional information about long-term debt can be found in Note 1 and Note 11 to the financial statements.

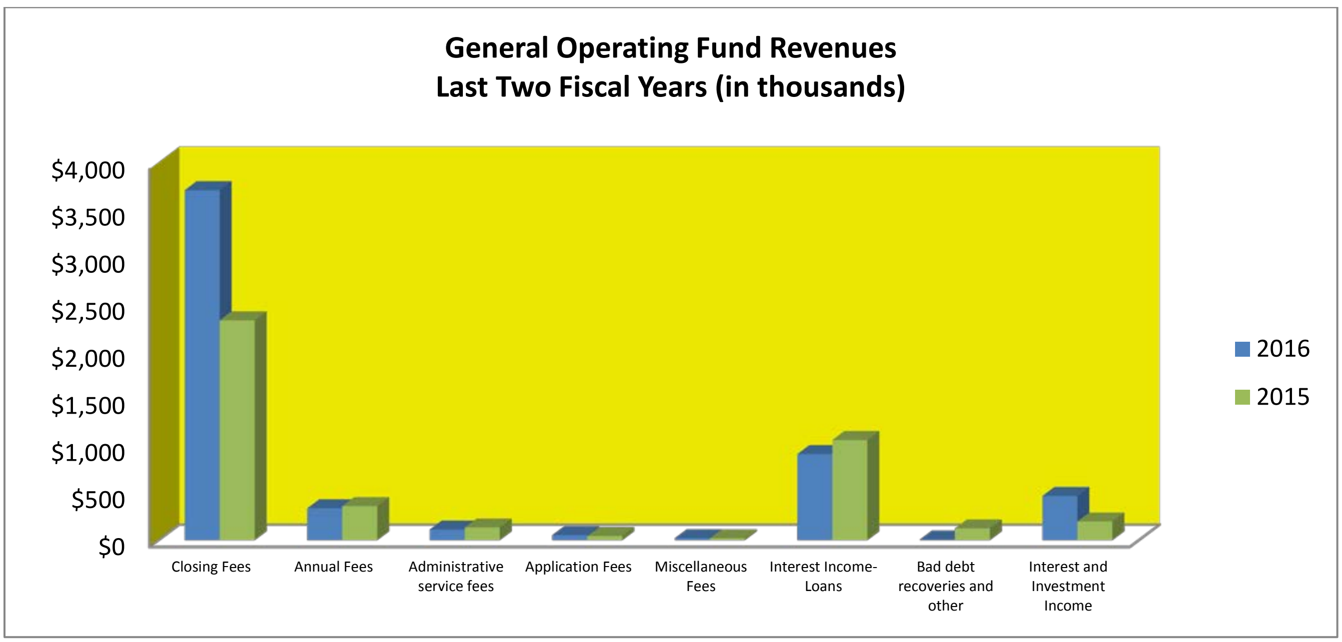
Financial Analysis of the Authority's Funds

The Authority has two major enterprise funds.

General Operating Fund – This fund is the primary operating fund of the Authority, which receives revenues from program applications and interest payments from direct loans. All administrative expenses for establishing and monitoring the Authority's programs are paid out of this fund. In Fiscal Year 2016, closing fees accounted for 65.7% of total revenues in the fund, but were higher than the prior year by $1.4 million, or 59.1%. The reason for the increase is the higher number of closings and/or bonds issued. Interest income on loans decreased by $149 thousand, or 13.9%, as a result of lower amount of outstanding loans from the former Illinois Rural Bond Bank local governments. Administrative service fees total $114 thousand, which is a decrease of $22 thousand or 16.2% from prior year in this category. Interest and investment income are higher in Fiscal Year 2016 due to the Authority's updated investment strategy to invest available funds with investment managers, who, in turn, generate higher returns and due to the prompt payment of interest from the State Receivables. Net investment income in this fund totaled $474 thousand, which is an increase of $274 thousand or 136.6% from the prior fiscal year. Overall, revenues in the fund totaled $5.6 million, which was $1.3 million or 31.3% greater than Fiscal Year 2015. With spending held to just under $4.4 million, the General Operating Fund realized an increase in net position of $1.2 million.

Revenues
(Amounts in Thousands)

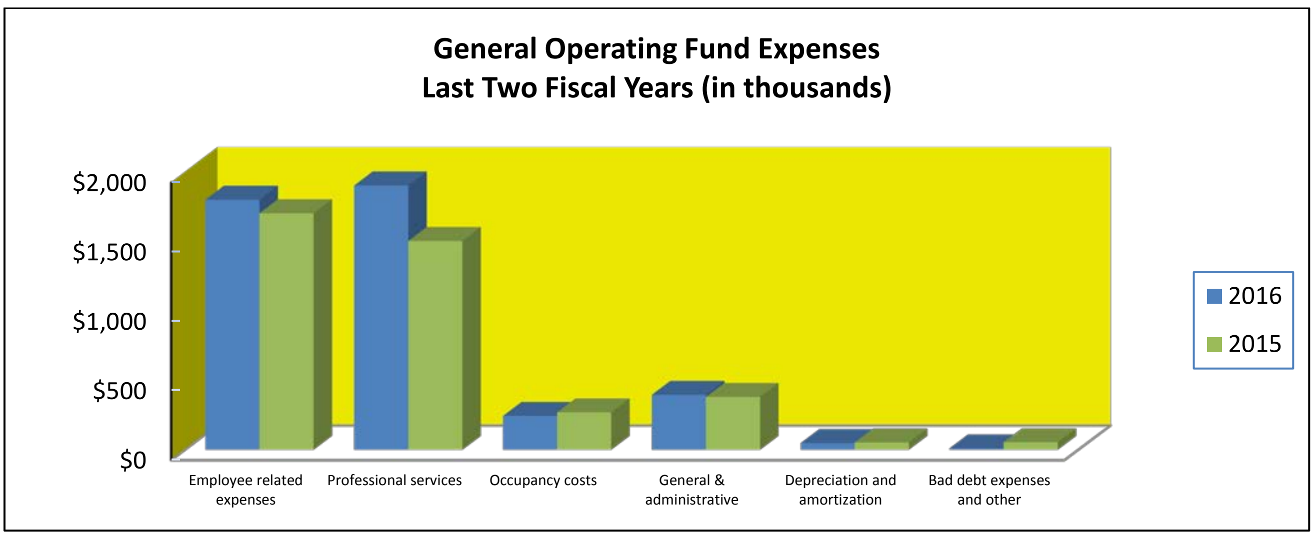
	2016	2015	2016 % of Total	Increase/ Decrease from 2015 ($)	Increase/ Decrease from 2015 (%)
Closing fees	$ 3,707	$ 2,331	65.7%	$ 1,376	59.0%
Annual fees	342	365	6.1%	(23)	-6.3%
Administrative service fees	114	136	2.0%	(22)	-16.2%
Application fees	54	45	1.0%	9	20.6%
Miscellaneous fees	21	20	0.4%	1	5.0%
Interest income - loans	922	1,071	16.3%	(149)	-13.9%
Bad debt recoveries and other	7	127	0.1%	(120)	-94.5%
Interest and investment income	474	200	8.4%	274	137.0%
Total revenues	$ 5,641	$ 4,295	100.0%	$ 1,346	31.3%



Employee related expenses increased by $97 thousand or 5.7% from Fiscal Year 2015, due to an increase of employee vacation accrued expenses in the prior fiscal year, by higher group medical costs in Fiscal Year 2016 and due to salary increases. Professional service costs increased by $398 thousand, or 26.5%, driven by increased temporary staffing fees, additional internal audit costs, bank/custodial fees, and upgrades of information technology systems and services. Occupancy costs fell by $26 thousand or 9.6%, as a result of the Chicago Office's relocation to the Michael Bilandic building owned by the State of Illinois. The annual savings resulting from this relocation is greater than $26 thousand since Fiscal Year 2015 occupancy costs included one-time costs for moving and leasehold improvements. General and administrative expenses were higher by $16 thousand or 4.2%, due to the implementation of the Authority's electronic records management initiative, new agency subscriptions for compliance and financial reporting, and higher printing costs. Bad debt expenses decreased by $45 thousand or 81.8% due to some receivables deemed uncollectible at year end. Overall, expenses in the general operating fund were higher than Fiscal Year 2015 by $435 thousand or 11.0%.

Expenses
(Amounts in Thousands)

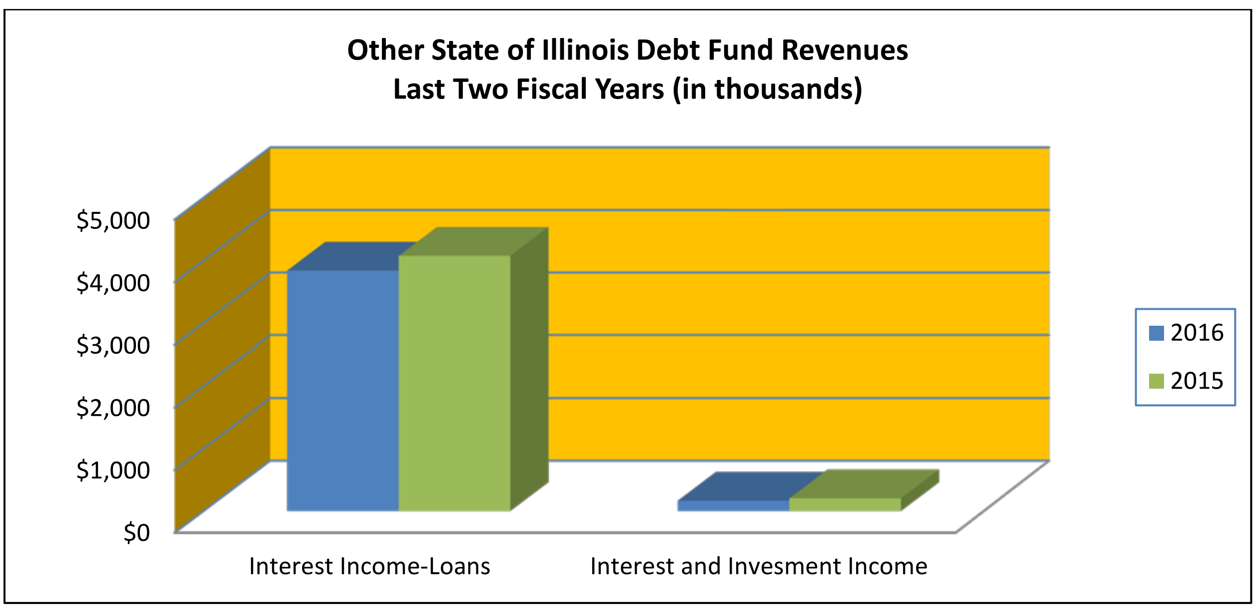
	2016	2015	2016 % of Total	Increase/ Decrease from 2015 ($)	Increase/ Decrease from 2015 (%)
Employee related expenses	$ 1,799	$ 1,702	40.9%	$ 97	5.7%
Professional services	1,901	1,503	43.2%	398	26.5%
Occupancy costs	245	271	5.6%	(26)	-9.6%
General and administrative	398	382	9.0%	16	4.2%
Depreciation and amortization	48	53	1.1%	(5)	-9.4%
Bad debt expenses and other	10	55	0.2%	(45)	-81.8%
Total expenses	$ 4,401	$ 3,966	100.0%	$ 435	11.0%



Other State of Illinois Debt Fund **–** The purpose of this fund is to account for bond proceeds, principal and interest payments, purchase participating institutions securities and other debt related activity for other entities within the State of Illinois' reporting entity. These agencies include the Illinois Environmental Protection Agency, Illinois Medical District Commission and Northern Illinois University Foundation. The fund also collects interest and principal payments from the participating institutions and makes payments and interest on the bonds payable. All activity in this fund is of a conduit nature on behalf of the other State agencies and/or units. Interest income from loans totaled $3.8 million versus $4.1 million from Fiscal Year 2015, a decrease of $237 thousand or 5.8%. The reason for the reduction is due to the decreasing loan balances as the borrowers continue to make scheduled principal payments. Interest and investment income was also lower in this fund. The current year's balance is a direct result of the transfer of bond proceeds and other monies from the Authority's locally held funds, at the request of the Illinois Environmental Protection Agency, to the custody of the State of Illinois Treasurer. Investment revenues totaled $163 thousand, which was 19.3% or $39 thousand lower than Fiscal Year 2015. Overall, revenues in the bond fund were $276 thousand or 6.4% lower than Fiscal Year 2015. The ending net position for this fund is zero.

Revenues
(Amounts in Thousands)

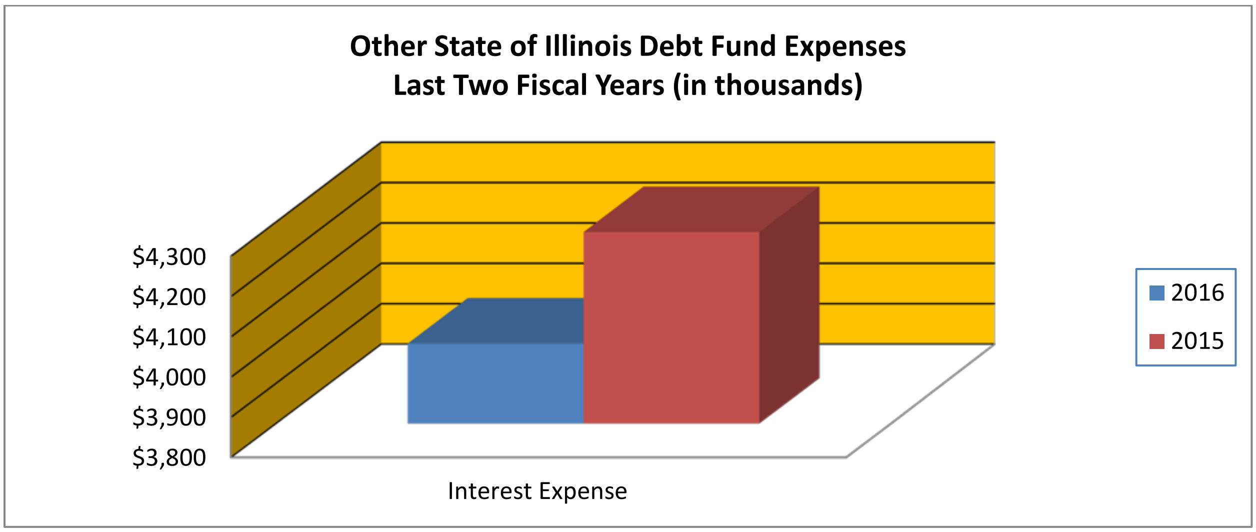
	2016	2015	2016 % of Total	Increase/ Decrease from 2015 ($)	Increase/ Decrease from 2015 (%)
Interest income loans	$ 3,836	$ 4,073	95.9%	$ (237)	-5.8%
Interest and investment income	163	202	4.1%	(39)	-19.3%
Total expenses	$ 3,999	$ 4,275	100.00%	$ (276)	-6.4%



Interest expense in the fund totaled $3.9 million, which is a decrease of $276 thousand from Fiscal Year 2015. The reduction is attributable to the decreasing loan balances as the borrowers continue to make scheduled principal payments. Interest expense is the only outflow shown in this fund on the Authority's financial statements. Other financial activity of these State of Illinois agencies is included on the financial statements of the primary government.

Expenses
(Amounts in Thousands)

	2016	2015	2016 % of Total	Increase/ Decrease from 2015 ($)	Increase/ Decrease from 2015 (%)
Interest expense	$ 3,999	$ 4,275	100.00%	$ (276)	-6.5%



Economic Factors, Decisions and Conditions

<u>All Funds</u> - The Authority receives revenues from the management and closing of financial bond issues and other transactions; evaluating, documenting, and closing loan applications; bond and loan application fees; annual maintenance fees for ongoing agreements; interest on loans; and, investment income. Reversing a trend from the previous few years, the Authority saw an increase in the number of bond transactions closed in Fiscal Year 2016 which resulted in an increase in closing fee revenues. The Authority closed Fiscal Year 2016 (June 30, 2016) with having issued more than $3.78 billion in conduit debt during the 12-month period, the highest aggregate par amount issued since the end of fiscal year 2009. The size and variety of the Authority's transactions this past fiscal year illustrate the social and economic impact that not-for-profit/for-profit corporations and local governments have on the people of our state. Our projects this year also demonstrate the job creation power of conduit bonds when used by the private sector. This trend has continued into Fiscal Year 2017. In addition, the Authority's investment strategy has provided additional interest and investment income to support the Authority's operations. Overall, the Authority reported an ending Fiscal Year 2016 net position of $118.7 million.

In August 2016, the Authority was notified by the Illinois Medical District Commission that it was currently evaluating the refinancing and redemption of its 2006 bonds issued through the Authority. If the 2006 bonds are redeemed, the Authority will no longer report any of the Commission debt on its balance sheet.

In Fiscal Year 2016, the Illinois Finance Authority Board approved a resolution allowing the Authority to assist the State of Illinois in making payments to vendors who supply critical services to the State, in the absence of an approved budget.

On June 24, 2016, Public Act 99-0509 ("Act") was enacted into law with an immediate effective date. The Act creates, within the Authority, a new loan guarantee program with private banks to help qualified veteran-owned small businesses. Currently, the Authority's portfolio of guaranteed loans is supported by three, individual nonmajor funds: the Industrial Project Insurance Fund, the Illinois Agricultural Loan Guarantee Fund, and the Illinois Farmer Agribusiness Loan Guarantee Fund. As of June 30, 2016 these three funds have net position of $29.4 million. Public Act 99-0509 also grants flexibility to the Authority for risk management purposes by allowing the Authority to allocate potential claims under the guarantee programs among the three funds. In doing so this also resolves Finding No. 2015-001 in the Fiscal Year 2015 Illinois Auditor General Financial Audit of the Authority.

<u>Nonmajor Funds</u> - As of June 30, 2016, the Authority's nonmajor funds in aggregate reported unrestricted net position of $4.2 million and restricted net position of $60.7 million, for a total net position of $64.9 million. The net position restricted in the nonmajor funds is for locally held agricultural guarantees, public safety, agricultural guarantees and rural development loans, renewable energy development, credit enhancement and low income community investments.

Notes to the Basic Financial Statements

The Notes to the Basic Financial Statements follow the statements in the report and complement the financial statements by describing qualifying factors and changes throughout the fiscal year.

Requests for Information

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the funds it receives. Additional details may be requested by mail at the following address:

Illinois Finance Authority
Department of Finance
160 N. LaSalle Street
Suite S-1000
Chicago, Illinois, 60601

Or visit our website at: http://www.il-fa.com/public-access/financial-reports/2016 for a complete copy of this report and other financial information.

State of Illinois
Illinois Finance Authority
(A Component Unit of the State of Illinois)

Statement of Net Position
June 30, 2016

	General Operating Fund	Other State of Illinois Debt Fund	Nonmajor Funds	Total
ASSETS				
Current assets:				
Current unrestricted assets:				
Cash and cash equivalents	$ 9,688,287	$ -	$ 35,079	$ 9,723,366
Investments	12,026,148	-	879,323	12,905,471
Accounts receivable, net	4,982,542	-	-	4,982,542
Loans receivables, net	223,771	-	-	223,771
Loans receivables from State component units	1,391,540	-	-	1,391,540
Loans receivables from primary government	538,038	-	-	538,038
Accrued interest receivable	666,877	-	5,121	671,998
Bonds and notes receivable	1,722,600	-	-	1,722,600
Due from other funds	25,450	-	-	25,450
Due from other local government agencies	-	-	2,333,795	2,333,795
Prepaid expenses	37,331	-	-	37,331
Total current unrestricted assets	31,302,584	-	3,253,318	34,555,902
Current restricted assets:				
Cash and cash equivalents	-	75,867,439	7,794,563	83,662,002
Investments	-	-	6,410,358	6,410,358
Securities lending collateral equity with the State Treasurer	-	-	4,744,000	4,744,000
Accrued interest receivable	-	28,799	44,900	73,699
Bonds and notes receivable from State component units	-	243,273	-	243,273
Loans receivables, net	-	-	2,011,208	2,011,208
Total current restricted assets	-	76,139,511	21,005,029	97,144,540
Total current assets	31,302,584	76,139,511	24,258,347	131,700,442
Noncurrent assets:				
Noncurrent unrestricted assets:				
Investments	6,352,148	-	972,139	7,324,287
Loans receivables, net	1,509,138	-	-	1,509,138
Bonds and notes receivable	15,457,337	-	-	15,457,337
Capital assets, net of accumulated depreciation	28,885	-	-	28,885
Total noncurrent unrestricted assets	23,347,508	-	972,139	24,319,647
Noncurrent restricted assets:				
Cash and cash equivalents	-	-	18,531,781	18,531,781
Investments	-	3,349,693	5,802,334	9,152,027
Accrued interest receivable	-	-	9,000	9,000
Loans receivables, net	-	-	20,882,322	20,882,322
Bonds and notes receivable from primary government	-	34,778,530	-	34,778,530
Bonds and notes receivable from State component units	-	30,956,855	-	30,956,855
Total noncurrent restricted assets	-	69,085,078	45,225,437	114,310,515
Total noncurrent assets	23,347,508	69,085,078	46,197,576	138,630,162
Total assets	54,650,092	145,224,589	70,455,923	270,330,604
DEFERRED OUTFLOWS OF RESOURCES				
Net loss on debt refundings	-	577,011	-	577,011
Total deferred outflows of resources	-	577,011	-	577,011
Total assets and deferred outflows of resources	54,650,092	145,801,600	70,455,923	270,907,615

State of Illinois
Illinois Finance Authority
(A Component Unit of the State of Illinois)

Statement of Net Position (Continued)
June 30, 2016

	General Operating Fund	Other State of Illinois Debt Fund	Nonmajor Funds	Total
LIABILITIES				
Current liabilities:				
Payable from unrestricted current assets:				
Accounts payable	$ 217,681	$ -	$ 297	$ 217,978
Payables from pending investment purchases	149,584	-	30,137	179,721
Accrued liabilities	184,046	-	-	184,046
Due to employees	117,956	-	-	117,956
Due to primary government	85,001	-	-	85,001
Unearned revenue, net of accumulated amortization	131,930	-	-	131,930
Total current liabilities payable from unrestricted current assets	886,198	-	30,434	916,632
Payable from restricted current assets:				
Accounts payable	-	-	12,059	12,059
Due to other funds	-	-	25,450	25,450
Obligation under securities lending of the State Treasurer	-	-	4,744,000	4,744,000
Accrued interest payable	-	3,053,676	1,803	3,055,479
Bonds and notes payable, primary government	-	20,355,000	-	20,355,000
Bonds and notes payable, State component units	-	1,460,000	-	1,460,000
Current portion of long-term debt	-	-	60,584	60,584
Total current liabilities payable from restricted current assets	-	24,868,676	4,843,896	29,712,572
Total current liabilities	886,198	24,868,676	4,874,330	30,629,204
Noncurrent liabilities:				
Payable from unrestricted noncurrent assets:				
Noncurrent payables	585	-	-	585
Total noncurrent liabilities payable from unrestricted noncurrent assets	585	-	-	585
Payable from restricted noncurrent assets:				
Bonds and notes payable, primary government	-	77,320,000	-	77,320,000
Bonds and notes payable, State component units	-	35,688,207	-	35,688,207
Noncurrent portion of long-term debt	-	-	248,512	248,512
Noncurrent loan reserve	-	-	441,869	441,869
Unamortized bond premium	-	7,924,717	-	7,924,717
Total noncurrent liabilities payable from restricted noncurrent assets	-	120,932,924	690,381	121,623,305
Total noncurrent liabilities	585	120,932,924	690,381	121,623,890
Total liabilities	886,783	145,801,600	5,564,711	152,253,094
NET POSITION				
Net investment in capital assets	28,885	-	-	28,885
Restricted for:				
Industrial revenue debt and agricultural guarantees	-	-	11,857,383	11,857,383
Public safety loans	-	-	26,788,338	26,788,338
Agricultural and rural development loans	-	-	19,190,729	19,190,729
Renewable energy development	-	-	2,247,513	2,247,513
Credit enhancement	-	-	600,000	600,000
Low income community investments	-	-	12,226	12,226
Unrestricted	53,734,424	-	4,195,023	57,929,447
Total net position	$ 53,763,309	$ -	$ 64,891,212	$ 118,654,521

See accompanying notes to the basic financial statements.

State of Illinois
Illinois Finance Authority
(A Component Unit of the State of Illinois)

Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2016

	General Operating Fund	Other State of Illinois Debt Fund	Nonmajor Funds	Total
Operating revenues:				
Closing fees	$ 3,707,376	$ -	$ -	$ 3,707,376
Annual fees	341,544	-	-	341,544
Administrative service fees	114,429	-	-	114,429
Application fees	54,350	-	-	54,350
Miscellaneous fees	20,266	-	213	20,479
Interest income - loans	922,248	3,836,467	44,797	4,803,512
Other revenue	7,499	-	-	7,499
Total operating revenue	5,167,712	3,836,467	45,010	9,049,189
Operating expenses:				
Employee related expenses	1,798,679	-	-	1,798,679
Professional services	1,900,802	-	35,955	1,936,757
Occupancy costs	244,745	-	-	244,745
General and administrative	397,540	-	7,089	404,629
Interest expense	-	3,999,345	3,291	4,002,636
Depreciation and amortization	47,775	-	-	47,775
Total operating expenses	4,389,541	3,999,345	46,335	8,435,221
Operating income (loss)	778,171	(162,878)	(1,325)	613,968
Nonoperating revenue (expenses):				
Transfer of funds and interest in program from the State of Illinois	-	-	425,846	425,846
Interest and investment income	473,509	162,878	263,119	899,506
Bad debt expense	(25,136)	-	(666,205)	(691,341)
Bad debt recoveries	15,634	-	122,119	137,753
Total nonoperating revenues (expenses)	464,007	162,878	144,879	771,764
Net income before transfers	1,242,178	-	143,554	1,385,732
Transfers:				
Transfers in from other funds	18	-	-	18
Transfers out to other funds	-	-	(18)	(18)
Total transfers in (out)	18	-	(18)	-
Change in net position	1,242,196	-	143,536	1,385,732
Net position - beginning of year	52,521,113	-	64,747,676	117,268,789
Net position - end of year	$ 53,763,309	$ -	$ 64,891,212	$ 118,654,521

See accompanying notes to the basic 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, 2016

	General Operating Fund	Other State of Illinois Debt Fund	Nonmajor Funds	Total
Cash flows from operating activities:				
Cash received for fees and other	$ 4,166,853	$ -	$ 754	$ 4,167,607
Cash payments for employee services	(1,781,740)	-	-	(1,781,740)
Cash payments to suppliers for goods and services	(2,370,259)	-	(34,267)	(2,404,526)
Net cash provided by (used in) operating activities	14,854	-	(33,513)	(18,659)
Cash flows from noncapital financing activities:				
Bonds and notes principal payments	-	(24,113,420)	(59,984)	(24,173,404)
Interest payments	-	(7,334,381)	(3,691)	(7,338,072)
Permanent capital transfer from the State	-	-	425,846	425,846
Permanent capital transfer to the State	-	-	-	-
Due from other funds	(5,789)	-	(19,661)	(25,450)
Due to other funds	-	-	25,450	25,450
Transfers from other funds	18	-	-	18
Transfers to other funds	-	-	(18)	(18)
Net cash provided by (used in) noncapital financing activities	(5,771)	(31,447,801)	367,942	(31,085,630)
Cash flows from capital and related financing activities:				
Purchase of capital assets	(6,613)	-	-	(6,613)
Net cash used in capital and related financing activities	(6,613)	-	-	(6,613)
Cash flows from investing activities:				
Purchase of investments	(24,318,843)	(6,544,156)	(13,239,373)	(44,102,372)
Maturity and sales of investments	29,428,865	6,700,660	19,803,425	55,932,950
Interest and dividends on investments	274,930	6,568	322,271	603,769
Cash received for interest on loans	1,039,441	3,830,105	36,856	4,906,402
Cash received on loan receivables and guarantees	4,086,776	14,935,547	1,649,785	20,672,108
Cash payments on loan receivables and guarantees	(7,728,628)	-	(7,329,865)	(15,058,493)
Net cash provided by investing activities	2,782,541	18,928,724	1,243,099	22,954,364
Net increase (decrease) in cash and cash equivalents	2,785,011	(12,519,077)	1,577,528	(8,156,538)
Cash and cash equivalents - beginning of year	6,903,277	88,386,516	24,783,895	120,073,688
Cash and cash equivalents - end of year	$ 9,688,288	$ 75,867,439	$ 26,361,423	$ 111,917,150

State of Illinois
Illinois Finance Authority
(A Component Unit of the State of Illinois)

Statement of Cash Flows (Continued)
For the Year Ended June 30, 2016

	General Operating Fund	Other State of Illinois Debt Fund	Nonmajor Funds	Total
Reconciliation of operating income to net cash provided by (used in) operating activities:				
Operating income (loss)	$ 778,171	$ (162,878)	$ (1,325)	$ 613,968
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	47,775	-	-	47,775
Interest on loans	(922,248)	(3,836,467)	(44,256)	(4,802,971)
Interest expense	-	3,999,345	3,291	4,002,636
Changes in assets and liabilities:				
Accounts receivable	(84,611)	-	-	(84,611)
Unearned revenue	6,000	-	-	6,000
Prepaid expenses	(3,103)	-	-	(3,103)
Accounts payable and accrued liabilities	63,431	-	8,777	72,208
Due to employees	16,939	-	-	16,939
Due from primary government	112,500	-	-	112,500
Due to primary government	-	-	-	-
Net cash provided by (used in) operating activities	$ 14,854	$ -	$ (33,513)	$ (18,659)

See accompanying notes to the basic financial statements.

State of Illinois
Illinois Finance Authority
(A Component Unit of the State of Illinois)

Statement of Fiduciary Net Position - Agency Fund
June 30, 2016

	Metro East Police District Commission Fund
Assets	
Current assets:	
Cash and cash equivalents	$ 18,959
Liabilities	
Current liabilities:	
Other liabilities	$ 18,959

See accompanying notes to the basic financial statements.

State of Illinois
Illinois Finance Authority
(A Component Unit of the State of Illinois)

Statement of Changes in Assets and Liabilities - Agency Fund
June 30, 2016

		Metro East Police District Commission Fund
Assets		
Cash and cash equivalents		
July 1, 2015	$	36,594
Additions		1,965
Deductions		(19,600)
Total Cash and cash equivalents		
June 30, 2016		18,959
Total Assets		
July 1, 2015		36,594
Additions		1,965
Deductions		(19,600)
Total Assets		
June 30, 2016	$	18,959
Liabilities		
Other Liabilities		
July 1, 2015	$	36,594
Additions		1,965
Deductions		(19,600)
Total Other Liabilities		
June 30, 2016		18,959
Total Liabilities		
July 1, 2015		36,594
Additions		1,965
Deductions		(19,600)
Total Liabilities		
June 30, 2016	$	18,959

See accompanying notes to the basic financial statements.

Note 1. Summary of Significant Accounting Policies

Reporting Entity

The Illinois Finance Authority (Authority) is a body politic and corporate created on 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 Authority is governed by the 15-member Board of Directors, appointed by the Governor with the advice and consent of the Senate.

Component units are separate legal entities for which the primary government is legally accountable. The Authority is a component unit of the State of Illinois for financial reporting purposes because its exclusion would cause the State's financial statements to be misleading. These financial statements are included in the State's Comprehensive Annual Financial Report. The Authority reports one blended component unit, the Illinois Finance Authority Development Fund NFP, which is presented as a nonmajor fund beginning in Fiscal Year 2015.

New Accounting Standards

During the Fiscal Year 2016, the Authority adopted the following Governmental Accounting Standards Board (GASB) standards:

- **GASB Statement No. 72*, Fair Value Measurement and Application.*** This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 4 for implementation of this standard.

During the Fiscal Year 2016, the Authority adopted the following Governmental Accounting Standards Board ("GASB") standards, but has determined that they are not applicable to the Authority's financial reporting as of June 30, 2016:

- **GASB Statement No. 73*, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*.** The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability.

Note 1. Summary of Significant Accounting Policies (Continued)

New Accounting Standards (Continued)

Other accounting standards that the Authority is currently reviewing for applicability and potential impact on the financial statements include:

- **GASB Statement No. 74*, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.*** The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. If applicable, this Statement will be effective for the Authority beginning with its year ending June 30, 2017.

- **GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.*** The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). If applicable, this Statement will be effective for the Authority beginning with its year ending June 30, 2018.

- **GASB Statement No. 77, *Tax Abatement Disclosures*.** Financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bond analysts, and others with information they need to evaluate the financial health of governments, make decisions, and assess accountability. If applicable, this Statement will be effective for the Authority beginning with its year ending June 30, 2017.

- **GASB Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans.*** The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. If applicable, this Statement will be effective for the Authority beginning with its year ending June 30, 2017.

- **GASB Statement No. 79, *Certain External Investment Pools and Pool Participants.*** The objective of this Statement is to address for certain external investment pools and their participants the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards. Those provisions were based on the Investment Company Act of 1940, Rule 2a7. Rule 2a7 contains the Securities and Exchange Commission's regulations that apply to money market funds and were significantly amended in 2014. The Authority adopted most of the provisions of this Statement in its year ending June 30, 2016, paragraphs 18, 19, 23-26, and 40 will take effect for the year ending June 30, 2017.

Note 1. Summary of Significant Accounting Policies (Continued)

New Accounting Standards (Continued)

- **GASB Statement No. 80*, Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*.** The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016.

- **GASB Statement No. 81, *Irrevocable Split-Interest Agreements***. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts—or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements—in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively.

Note 1. Summary of Significant Accounting Policies (Continued)

New Accounting Standards (Continued)

- **GASB Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73***. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

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, deferred outflows, liabilities, deferred inflows, net position, revenues, transfers, and expenses, as appropriate. The emphasis on fund financial statements is on a major proprietary fund (enterprise), with each fund displayed in a separate column. All remaining proprietary funds are aggregated and reported as nonmajor funds. The Authority has the following major proprietary funds:

General Operating Fund - This fund of the Authority 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 the Illinois Finance Authority Act (20 ILCS 3501/801-40(j)). It is made up of the following programs:

- General Fund - Accounts for the main operations of the Authority;
- Local Government Borrowing Fund - Accounts for monies received from local governments formerly participating in the Illinois Rural Bond Bank Program; and,
- Deferred Action for Childhood Arrivals - Accounts for monies held for the purposes of providing student loans for eligible applicants to medical and dental schools in Illinois.
- Primary Government Borrowing Fund – Accounts for monies received from the state vendor receivables program.

Other State of Illinois Debt Fund - Each bond issue is comprised of several accounts as required by the bond indenture. The accounts of the State of Illinois agencies and component unit bond issues have been aggregated and reported as the Other State of Illinois Debt Fund. These are non-appropriated accounts maintained by the trustee. The purpose of the fund is to collect bond proceeds, purchase participating institutions securities, and remit bond issuance costs paid for with bond proceeds. The fund also collects interest and principal payments from the participating institutions and makes payments on the bonds payable.

Note 1. Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

Metro East Police District Fund - In accordance with the Metro East Police District Act (70 ILCS 1750/15) and the Illinois Finance Authority Act (20 ILCS 3501/825-115), the Authority established the Metro East Police District (Fund), a fiduciary agency fund of the Authority. All moneys received by the Metro East Police District Commission shall be deposited into the Fund. The Authority and the Metro East Police District Commission entered into an Intergovernmental Agreement to use the moneys deposited into the Fund solely for the purposes set forth in Public Act 97-0971. Fiduciary funds are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the government. Fiduciary funds include pension trust funds, private-purpose trust funds, investment trust funds, and agency funds.

Agency funds, such as the Metro East Police District Fund are used to report resources held in a purely custodial capacity. Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments. As of June 30, 2016, the amount held by the Authority on behalf of the Metro East Police District Commission was $18,959.

Illinois Finance Authority Development Fund NFP - In August 2013, the Authority's Board of Directors approved a resolution authorizing the creation of a special purpose entity, to be formed for the express purpose of applying for an allocation of New Markets Tax Credits ("NMTCs"). This program is administered by the U.S. Department of the Treasury's Community Development Financial Institutions Fund ("CDFI Fund"). In order for an entity to apply for an allocation of New Markets Tax Credits, the entity must first apply for and receive a license to be designated as a "Community Development Entity", or "CDE", by the CDFI Fund. To qualify as a CDE, however, an organization must be a domestic corporation or partnership at the time of the CDE certification application. Because the Authority is a body politic and corporate entity, it was necessary to form an affiliated corporation to be certified as a CDE.

As a result, on August 9, 2013, the Illinois Finance Authority Development Fund NFP, an Illinois not-for-profit corporation (the "IFADF"), was incorporated. The Authority, as the entity responsible for the creation of the IFADF, maintains three (3) ex-officio members on the six (6) to eleven (11) member IFADF Board of Directors, and the IFADF Board of Directors governs the organization. In addition to the ex-officio members who are also employees of the Authority, the IFADF Board of Directors consists of one or more community representatives who facilitate outreach to qualified low-income communities.

The IFADF is a development stage entity formed by the Authority for the primary purpose of serving as a CDE to enable the Authority to apply for (and ultimately manage) an allocation of New Markets Tax Credits. The IFADF was established to undertake two specific activities as a special purpose affiliate of the Authority: (1) to apply for a New Markets Tax Credit allocation, administered by the CDFI Fund (pursuant to Section 45D of the Internal Revenue Code of 1986, as amended); and if successful, (2) to manage a New Markets Tax Credit Program, that would supplement the Authority's existing conduit revenue bond and direct loan financing products, for manufacturers and 501(c)(3) entities. These transactions will benefit qualified low-income communities within the State of Illinois.

Note 1. Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

New Markets Tax Credits generate investor equity upfront in exchange for a stream of federal income tax credits payable to the New Markets Tax Credit purchaser/investor over a 7-year period. This upfront investor equity is most frequently used on debt transactions by the CDE to fund direct subordinate loans that effectively credit enhance senior (i.e., first mortgage) bank loans or senior tax-exempt bond issues. Qualified projects must be located in specified (i.e., qualified) census tracts designated by CDFI Fund. CDEs have used subordinate loans capitalized from the sale of New Markets Tax Credits to provide supplemental (subordinate) financing for real estate projects undertaken by (i) industrial and commercial companies (and their affiliates), and (ii) 501(c)(3) entities.

Accordingly, New Markets Tax Credits have been used to provide subordinate financing that supplements primary financing (including commercial loans and tax-exempt bond issues) for real estate projects deemed consistent with the Illinois Finance Authority's statutory mission in financing industrial and commercial facilities as well as 501(c)(3) facilities.

Fiscal Year 2015 was the second consecutive fiscal year for which IFADF applied for, but did not receive, an allocation of New Markets Tax Credits from the CDFI Fund. The IFADF did not apply for an allocation in Fiscal Year 2016. As of June 30, 2016, cash and restricted net position of the IFADF, which is presented as part of the nonmajor funds, is $19,248.

Basis of Accounting

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

Certain items in the June 30, 2015 financial statements have been reclassified to correspond to the June 30, 2016 presentation.

Assets, Liabilities, Deferred Inflows, Deferred Outflows and Net Position

Cash, Cash Equivalents and Investments

Cash equivalents are defined as short-term, highly liquid investments readily convertible to cash with maturities of 90 days or less at time of purchase. Cash equivalents consist principally of certificates of deposit, repurchase agreements, and U.S. Treasury Bills and are stated at cost. Per the Authority's investment policy, safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to preserve the investment principal by minimizing credit and interest rate risk, provide liquidity for working capital needs and grow unencumbered portfolio balances through prudent management.

Note 1. Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, Deferred Inflows, Deferred Outflows and Net Position (Continued)

Restricted Assets

Certain resources have been classified as restricted assets on the Statement of Net Position because their use is limited by applicable bank and loan agreements. For additional disclosures, see Note 3 - cash deposits and investments, Note 11 - long-term obligations and Note 14 - commitments and contingencies.

Investments

Investments in marketable securities 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.

Issuance Costs and Premium and Unearned Revenue

The Authority is amortizing issuance premiums using the approximate effective interest method. Amounts are presented net of accumulated amortization in the Statement of Net Position. In accordance with GASB Statement No. 65, bond issuance costs and the bond issue related fee revenues are not deferred or amortized, but recognized in the current periods.

Deferred Loss or Gain on Early Extinguishment

The Authority is amortizing a deferred outflow (loss on the refunding of bonds) in the Other State of Illinois Debt Fund over the lesser of the term of the old debt or the new debt using the effective interest method. The unamortized loss is presented as a deferred outflow of resources in the Authority's Statement of Net Position.

Interfund Transactions

The Authority has the following types of interfund transactions:

Loans and Advances – This represents 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 – This represents 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 – This represents amounts provided to other funds which will not be repaid.

Note 1. Summary of Significant Accounting Policies (Continued)

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. Capital assets and accumulated depreciation is reported in Note 10 to the financial statements.

Capitalization thresholds and the estimated useful lives are as follows:

Assets	Threshold	Years
Furniture and equipment	$500	5
Computer equipment	$5,000	5
Software	$10,000	3

Vacation and Sick Leave

The Authority's current vacation and sick leave pay policy, effective July 1, 2011, provides for employees to earn vacation pay at a rate based upon the employee's length of service with the Authority. Vacation time is accrued monthly and employees are allowed to accumulate vacation time up to one and half times their annual vacation allowance. Once an employee has accumulated the maximum amount of vacation days, the employee will no longer accrue any further vacation days. Vacation days will resume accruing once the employee uses accumulated vacation days.

Earned vacation days are accrued at fiscal year-end for financial statement purposes and recorded as Due to Employees in the Statement of Net Position in the General Operating Fund. Sick leave earned by employees must be taken during the fiscal year and cannot be accumulated and carried over to the next fiscal year.

Activity related to accrued vacation leave for the year ended June 30, 2016, consisted of the following:

Balance June 30, 2015	Earned	Paid	Balance June 30, 2016	Due Within One Year
$ 101,017	$ 97,998	$ 81,059	$ 117,956	$ 117,956

Termination Benefits

Termination, or severance benefits, are specified and detailed in separation agreements between the Authority and former employees. These benefits may include continued payments of the employee's salary for a specified duration of time. The cost of these benefits is calculated based on the employee's last salary amount and includes salary related costs (e.g. Social Security and Medicare tax). No termination and/or severance payments were authorized or disbursed in Fiscal Year 2016.

Note 1. Summary of Significant Accounting Policies (Continued)

Net Position

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

Investment in Capital Assets - This component consists of capital assets, net of accumulated depreciation. As of June 30, 2016, the Authority had investments in capital assets of $28,885.

Restricted - This component consists of net position that is 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, 2016, the Authority had restricted net position of $60,696,189 of which $56,144,633 is restricted by enabling legislation.

Unrestricted - This component consists of all other net position that do not meet the definition of "restricted" or "net investment in capital assets." As of June 30, 2016, the Authority had unrestricted net position of $57,929,447.

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 non-exchange transactions or activities that are ancillary to the operations of the Authority, including interest and investment income.

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 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.

Conduit Debt Obligations

In accordance with the Illinois Finance Authority Act (20 ILCS 3501/801-40(c)), the Authority issues limited obligation revenue bonds and participated 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. In regards to these conduit issuances, neither the Authority or the 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, 2016, the aggregate amount of conduit debt outstanding is approximately $24.06 billion.

Note 2. Stewardship, Compliance and Accountability

The Illinois Finance Authority does not receive any State appropriations to support the administration and operation of the Authority. Instead, the Authority is financed from fees charged to borrowers who utilize the Authority to issue primarily tax-exempt debt, as well as from interest and fees collected from certain loans and investments.

The Authority is the steward of two State of Illinois non-appropriated funds, the Illinois Agricultural Loan Guarantee Fund and the Illinois Agribusiness Loan Guarantee Fund. These funds are mission driven programs to assist in the expansion of the agricultural industry throughout Illinois. Further, the Authority is the steward for the Fire Truck Revolving Loan Fund and Ambulance Revolving Loan Fund. These funds are mission driven programs and assist local governments and non-profit entities perform public safety functions. In addition, the Authority adopts an annual budget for the General Operating Fund at its July meeting for the upcoming fiscal year.

The Authority participates in an annual financial audit and a biennial compliance examination conducted by the State of Illinois Office of the Auditor General and internal audits conducted by licensed certified public accounting firm(s). It is an ongoing Authority initiative to increase and maintain sufficient levels of internal controls and comply with all regulatory and statutory requirements.

Note 3. Cash, Deposits and Investments

Cash, Deposits and Investments

Cash and investments as of June 30, 2016, are classified in the accompanying basic financial statements as follows:

Cash and cash equivalents - unrestricted	$ 9,723,366
Cash and cash equivalents - fiduciary fund	18,959
Cash and cash equivalents - restricted current assets	83,662,002
Cash and cash equivalents - restricted noncurrent assets	18,531,781
Investments - unrestricted current assets	12,905,471
Investments - unrestricted noncurrent assets	7,324,287
Investments - restricted current assets	6,410,358
Investments - restricted noncurrent assets	9,152,027
Total	$ 147,728,251

Cash and investments as of June 30, 2016, consist of the following:

Deposits with financial institutions	$ 283,536
Deposits with State of Illinois Treasurer	18,095,832
Investments	129,348,883
Total	$ 147,728,251

Note 3. Cash, Deposits and Investments (Continued)

Allowable Investments

The Authority is permitted by the Illinois Finance Authority Act (20 ILCS 3501/801-30(a)) and by its investment policy to invest any of its funds in:

a. U.S. Government securities, including securities of the federal agencies;
b. Securities guaranteed by the federal government;
c. Savings accounts, certificates of deposit, and time deposits in banks or savings and loans insured by the Federal Deposit Insurance Corporation (FDIC), with 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 Funds;
i. A fund managed, operated, and administered by a bank, subsidiary of a bank, or subsidiary of a bank holding company or uses the services of such an entity to hold, invest or advise on investments; and,
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, federally assisted programs, and funds held by bond trustees that are governed by the provisions of bond agreements. The allowable investments are as follows:

<u>Credit Enhancement Funds</u> - Moneys in this fund are invested or reinvested by the Trustee in permitted investments as defined in the applicable Trust Indenture. The permitted investments include direct obligations of the United States of America; obligations, debentures, notes, or other evidences of indebtedness issued or guaranteed; new housing authority bonds or project notes issued by public agencies or municipalities; interest-bearing demand or time deposits in banks or savings and loan associations insured by the Federal Deposit Insurance Corporation; the Illinois Funds; repurchase agreements with banks which are members of the federal reserve system or with government bond dealers; and, obligations issued by or on behalf of a state or political subdivision.

<u>Federally Assisted Programs</u> - Federally assisted program fund reserves and other cash shall be deposited in accounts in banks or other financial institutions. Such accounts will be fully covered by Federal Deposit Insurance Corporation or fully collateralized with U.S. Government obligations, and must be interest-bearing.

Note 3. Cash, Deposits and Investments (Continued)

Other State of Illinois Debt Fund - Investment of bond funds shall be made in investment obligations, including federal securities; bonds, notes, debentures, or similar obligations; interest-bearing savings accounts, interest-bearing certificates of deposit or interest-bearing deposits or any other investments constituting direct obligations of any bank, as defined by the Illinois Banking Act, which is fully insured by the Federal Deposit Insurance Corporation or collateralized with federal securities; short-term obligations of corporations organized in the U.S. with assets exceeding $500,000,000; money market mutual funds registered under the Investment Company Act of 1940; short-term discount obligations of the Federal National Mortgage Association; shares or other forms of securities legally issuable by savings and loan associations; obligations the interest upon which is tax-exempt under Section 103 of the Internal Revenue Code; repurchase agreements of government securities; and any other investment which is permitted by the Bond Trust Indenture.

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 fixed income investment securities, the more sensitive they are to changes in 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, the Authority's investment policy limits any new investments to maturities of five years or less unless approved by the Executive Director.

As of June 30, 2016, the weighted average maturities of the Authority's investments were:

Investment Type	June 30, 2016	Weighted Average Maturity (in years)
U.S. Treasury notes	$ 6,866,509	1.06
U.S. Government agency securities	26,464,001	0.87
Money Market mutual funds	88,644,776	N/A
Commercial paper	249,947	0.03
Corporate debt securities	1,529,303	0.14
Municipal debt	682,379	0.96
Repurchase Agreements	4,911,968	0.00
Total	$ 129,348,883	

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.

Note 3. Cash, Deposits and Investments (Continued)

Credit Risk (Continued)

Presented below is the rating as of year-end for each investment type:

Investment Type	June 30, 2016	Ratings S & P	Ratings Moody's	Ratings Fitch
U.S. Treasury notes	$ 6,866,509	AA+	Aaa	-
U.S. Government agency securities	26,464,001	AA+	Aaa	-
Money market mutual funds	88,644,776	AAA	Aaa	-
Corporate debt securities	201,545	AA+	A1	-
Corporate debt securities	98,015	AA+	-	-
Corporate debt securities	327,331	AA-	Aa3	-
Corporate debt securities	325,212	A	A2	-
Corporate debt securities	375,000	A-	-a	-
Corporate debt securities	202,200	A	A1	-
Commercial paper	249,947	BBB+	Baa1	-
Municipal debt	350,739	AA+	Aa1	-
Municipal debt	331,640	AA	Aa1	-
Repurchase agreements	4,911,968	AAA	Aaa	-
Total	$129,348,883			

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 Authority's portfolio in total and 5% of Authority's 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.

Note 3. Cash, Deposits and Investments (Continued)

Concentration of Credit Risk (Continued)

As of June 30, 2016, investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of the total Authority investments are as follows:

Issuer	Investment Type	Amount
Federal Home Loan Bank	U.S. Government Agency Securities	$ 13,241,618
Fannie Mae	U.S. Government Agency Securities	6,827,252
Goldman Sachs Financial Square Government Fund	Money Market Mutual Funds	88,044,776

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. U.S. 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; and,
5. Surety bonds issued by Municipal Bond Insurance Association ("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, 2016, 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. In addition, all of the Authority's investments were held by third parties and in the name of the Authority.

The Illinois Funds is an external investment pool administered by the Treasurer of the State of Illinois. 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 Public Funds Investment Act (30 ILCS 235), the State Treasurer Act (15 ILCS 505/17), and the Deposit of State Moneys Act (15 ILCS 520/22.5).

Note 3. Cash, Deposits and Investments (Continued)

Custodial Credit Risk (Continued)

The Authority has entered into a repurchase agreement with Bank of America ("Bank"). Under the terms of this agreement, at the end of each business day, the Bank will sell the Authority government securities. The Bank promises to repurchase these same securities at the beginning of the next banking day for the amount invested plus interest. The interest rate is established each day by the Bank. If, on the maturity date, the Bank defaults on its obligation to repurchase the securities, the Bank will transfer the securities to a custodian to hold for the benefit of the Authority. If this occurs, the Authority could incur a loss if the value of the securities declines. At June 30, 2016, the Authority had invested $4,911,968 under this agreement. The underlying securities are held by Bank of America's safekeeping department.

Note 4. Fair Value Measurement

In accordance with GASB 72, the Authority's investments are measured and reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investments are classified according to the following hierarchy.

Level 1 – Investments reflect prices quoted in active markets
Level 2 – Investments reflect prices that are based on similar observable assets either directly or indirectly, which may include inputs in markets that are not considered to be active.
Level 3 – Investments reflect prices based upon unobservable sources.

The categorization of investments within the hierarchy is based upon the pricing transparency of the instrument and should not be perceived as the particular investment's risk.

Fair value of the Authority's U.S. Treasury notes, repurchase agreements, and money market mutual funds are determined by the Authority from observable market quotations as provided by the Authority's custodian bank.

Fair value of the Authority's U.S. Government agency securities, municipal debt and corporate debt securities are provided by its custodial bank. The prices are derived from inputs that are directly observable for an asset based on similar assets, as well as inputs that are not directly observable and are derived from observable market data.

The following table presents the Authority's fair value hierarchy for those assets measured at fair value on a recurring basis as of June 30, 2016.

Assets Investments	Total	Level 1	Level 2	Level 3
U.S. Treasury notes	$ 6,866,509	$ 6,866,509	$ -	$ -
U.S. Government agency securities	26,464,001	-	26,464,001	-
Municipal debt	682,379	-	682,379	-
Corporate debt securities	1,779,250	-	1,779,250	-
Repurchase agreements	4,911,968	4,911,968	-	-
Money market mutual funds	88,644,776	88,644,776	-	-
Total Investments	$129,348,883	$100,423,253	$ 28,925,630	$ -

Note 5. Securities Lending Transactions

Securities Lending Transactions: The State Treasurer lends securities to broker-dealers and other entities for collateral that will be returned for the same securities in the future. The State Treasurer has, through a Securities Lending Agreement, authorized Deutsche Bank AG to lend the State Treasurer's securities to broker-dealers and banks pursuant to a form of loan agreement.

During Fiscal Year 2016 and 2015, Deutsche Bank AG lent U.S. Agency securities and U.S. Treasury securities and received as collateral U.S. dollar denominated cash. Borrowers were required to deliver collateral for each loan equal to at least 100% of the aggregate fair value of the loaned securities. Loans are marked to market daily. If the fair value of collateral falls below 100%, the borrower must provide additional collateral to raise the fair value to 100%.

The State Treasurer did not impose any restrictions on loan amounts of available and eligible securities during Fiscal Years 2016 and 2015, respectively. In the event of borrower default, Deutsche Bank AG provides the State Treasurer with counterparty default indemnification. In addition, Deutsche Bank AG is obligated to indemnify the State Treasurer if Deutsche Bank AG loses any securities, collateral or investments of the State Treasurer in Deutsche Bank AG's custody. Moreover, there were no losses during Fiscal Years 2016 and 2015 resulting from a default of the borrowers or Deutsche Bank AG.

During Fiscal Years 2016 and 2015, the State Treasurer and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in repurchase agreements with approved counterparties collateralized with securities approved by Deutsche Bank AG and marked to market daily at no less than 102%. Because the loans are terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The State Treasurer had no credit risk as a result of its securities lending program as the collateral held exceeded the fair value of the securities lent.

In accordance with GASB Statement No. 28, paragraph 9, the Office of the State Treasurer has allocated the assets and obligations at June 30, 2016, arising from securities lending agreements to the various funds of the State. The securities lending collateral invested in repurchase agreements allocated to the Illinois Agricultural Loan Guarantee Fund and Illinois Farmer Agribusiness Loan Guarantee Fund were $2,659,000 and $2,085,000, respectively, as of June 30, 2016.

Note 6. Bonds, Notes 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 federal program, the Rural Development Loan Program. Bonds and notes 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 on February 1, 2017. The total loan outstanding as of June 30, 2016 was $3,000,000 within the nonmajor funds.

Note 6. Bonds, Notes and Loans Receivable (Continued)

Direct Lending Participation 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 $500,000 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 100 basis points less than the bank's rate with maturity dates up to ten years. Total loans outstanding as of June 30, 2016, were $3,176,728 within the General Operating Fund.

Deferred Action for Childhood Arrivals (DACA) Loan Program - The Deferred Action for Childhood Arrivals Loan Program is the Authority's loan program designed to provide student loans for eligible applicants to medical and dental schools in Illinois. The program was funded by $1.6 million in unrestricted monies transferred from the Authority's General Operating Fund, in July 2014, to the DACA sub-fund. On October 1, 2015 an additional $854,835 was transferred to the DACA sub-fund. Total loans outstanding as of June 30, 2016 were $1,025,333 within the General Operating Fund.

The Rural Development Revolving Loan Program - The Rural Development Revolving Loan Program participates with the U.S. Department of Agriculture's Rural Development Administration (formerly the Farmers Home Administration) Intermediary Relending Program to provide loans to business facilities and community development projects in rural areas for land acquisitions, facility construction and renovation, and machinery and equipment purchases. The Authority will contribute up to 75% or $250,000 of fixed asset costs at a 6% interest rate with maturity dates up to 20 years. Total loans outstanding as of June 30, 2016, were $185,777 within the nonmajor funds.

Fire Truck Revolving Loan Program - This program provides zero and low interest rate loans for the purchase of fire trucks by fire departments, fire protection districts, or township fire departments. Public Act 97-900, effective August 6, 2012, expanded this program to include loans for "brush trucks". Brush truck loans under the program will bear interest at 2% simple interest if both the chassis and the apparatus are built outside Illinois, 1% simple interest if either the chassis or the apparatus is built in Illinois, or zero interest if both the chassis and apparatus are built in Illinois. The loans to each department, district or township may not exceed $350,000 and must be repaid within 20 years. A loan for the purchase of brush trucks may not exceed $100,000 per truck. The program was originally funded by a transfer of $19,000,000 from the State of Illinois and administered by the Authority, through a Locally Held Fund. This transfer of funds was converted to program interest for the Authority, as recorded on the financial statements for the fiscal year ended June 30, 2014. Current and future program transfers are funded from State of Illinois collections on outstanding loans and fines from traffic violations. During the year ended June 30, 2016 twenty-five (25) loans were issued totaling $7,180,270. Total loans outstanding as of June 30, 2016, were $21,265,564 within the Locally Held Fire Truck Revolving Loan Fund. As of June 30, 2016, no loans had been made under this program for brush trucks.

Ambulance Revolving Loan Program - This program provides zero and low interest rate loans for the purchase of ambulances by fire departments, fire protection districts, township fire departments, and non-profit ambulance services. The loans may not exceed $100,000 and must be repaid within 10 years. The program was originally funded by an appropriation of $4,000,000 received by the State of Illinois and administered by the Authority, through a Locally Held Fund. This transfer of funds was converted to program interest for the Authority, as recorded on the financial statements for the Fiscal Year ended June 30, 2014. Current and future program transfers are funded from State of Illinois collections on outstanding debt. Total loans outstanding as of June 30, 2016, were $247,280 within the nonmajor funds.

Note 6. Bonds, Notes and Loans Receivable (Continued)

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. These loans are typically used by the local governments to finance short-term financing needs until a longer term financing solution becomes available under the Bond Bank Lending Program. Total loans outstanding as of June 30, 2016, were $402,999 in the General Operating Fund.

Local Government Borrowing Program - This program facilitates the financing needs of a broad array of governmental units located throughout the State. The loans are used by the local governments to finance long term water and sewer infrastructure improvements and general capital improvement projects. 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 and interest on its local government securities when due. This program was funded by the issuance of revenue bonds. Further information on these revenue bonds can be found in Note 11 of the financial statements. Total loans outstanding as of June 30, 2016, were $17,179,937 in the General Operating Fund.

Loans with the Primary Government and Component Units of the State of Illinois - The Authority has provided financing to the State of Illinois and to component units of the State of Illinois. The loans under this program were used to fund Illinois's Clean Water and Drinking Water revolving loan program administered by the State of Illinois, Environmental Protection Agency and to fund capital projects of other State agencies. This program was funded by the issuance of revenue bonds. Further information on these revenue bonds can be found in Note 11 to the financial statements. The borrowers make payments in an amount sufficient to pay the principal of and interest on the bonds when due. Total loans outstanding as of June 30, 2016, were $65,978,658 in the Other State of Illinois Debt Fund.

Renewable Energy Development Program - This program provides loans to qualified borrowers who construct community scale wind projects for use as alternative energy. This program was funded by a $2,000,000 grant received from the Illinois Clean Energy Community Foundation. Total loans outstanding as of June 30, 2016, were $1,206,055 within the nonmajor funds.

Allowance for Doubtful Accounts

The allowance for doubtful accounts for all loans and notes receivable on June 30, 2016, is comprised of two components: a general reserve and a reserve for delinquencies. 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 2% for the principal balance of all other loans outstanding. Loans in the DACA Loan Program, Fire Truck Revolving Loan Program, Ambulance Revolving Loan Program, Local Government Financing Assistance Program, Local Government Borrowing Program, Loans with Primary Government and Component Units of the State of Illinois, and the Renewable Energy Development Program have not experienced a default; therefore, the allowance for doubtful accounts based on prior experience is zero.

Note 6. Bonds, Notes and Loans Receivable (Continued)

Allowance for Doubtful Accounts (Continued)

The Authority's accounts, bonds, notes and loans receivable for the year ended June 30, 2016, consisted of the following:

	Fund	All Receivables June 30, 2016	Allowance for Doubtful Accounts	Net Receivable June 30, 2016
Accounts Receivable	General Operating	$ 5,067,579	$ (85,037)	$ 4,982,542
DACA Loan Program	General Operating	1,025,333	-	1,025,333
Illinois Housing Partnership Program	Nonmajor	3,000,000	(666,205)	2,333,795
Direct Lending Participation Program	General Operating	3,176,728	(942,574)	2,234,154
The Rural Development Revolving Loan Program	Nonmajor	185,777	(11,146)	174,631
Fire Truck Revolving Loan Program	Nonmajor	21,265,564	-	21,265,564
Ambulance Revolving Loan Program	Nonmajor	247,280	-	247,280
Local Government Financing Assistance Program	General Operating	402,999	-	402,999
Local Government Borrowing Program	General Operating	17,179,937	-	17,179,937
Loans with the Primary Government and	Other State of Illinois Debt			-
Component Units of the State of Illinois		65,978,658	-	65,978,658
Renewable Energy Development Program	Nonmajor	1,206,055	-	1,206,055
		$ 118,735,910	$ (1,704,962)	$117,030,948

Note 7. Guarantee Receivables

Guarantee receivables result from amounts due to the Authority after it has paid a guarantee claim. Under the Authority's guarantee program (see Note 14 to the financial statements), 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.

Note 7. Guarantee Receivables (Continued)

Activity related to guarantee receivables for the year ended June 30, 2016, consisted of the following:

	Illinois Farmer Agribusiness Loan Guarantee Fund	Illinois Agricultural Loan Guarantee Fund	Total
Guarantee receivables - beginning of year	$ 309,891	$ 170,902	$ 480,793
Disbursements on guarantee claims	-	-	-
Payments received	-	-	-
Receivables written off	-	-	-
Gross guarantee receivables	309,891	170,902	480,793
Allowance for doubtful accounts	(309,891)	(170,902)	(480,793)
Net receivables - end of year	$ -	$ -	$ -

The allowance for doubtful accounts for all guarantee receivables at June 30, 2016, is the difference between the guarantee payments made and the Authority's estimation of the value of any collateral securing the guarantee.

Note 8. Venture Capital Investments

In 2004, the Authority assumed the administration as well as the ownership of the interests purchased under the Technology Development Bridge Program established by the predecessor Illinois Development Finance Authority. These investments were made to accomplish the statutory purpose of the Venture Investment Fund. In Fiscal Year 2012, the Authority's Board of Directors decided to liquidate the investment portfolio of this program due to the length of investments, the lack of return on investment on the interests remaining in the portfolio, and the annual costs of administering the program.

During 2012, the Authority liquidated the marketable portion of this portfolio and determined that all remaining portfolio interests have no value. The Authority is in the process of obtaining the approval of the Attorney General to write off the remaining interests of $2,971,385, for which a 100% allowance for a decline in the market value was recognized.

Note 9. Interfund Transfers and Balances

Interfund Transfers

Interfund transfers are defined as the flow of assets, such as cash or goods, without equivalent flows of assets in return. Interfund borrowings are reflected as "Due to/from Other Funds" on the accompanying financial statements. All other interfund transfers are reported as transfers in/out.

Balance due from/to other funds - The following amounts represent balances due to/from major and also nonmajor funds as of June 30, 2016:

	Due from		
Funds	Major Funds	Nonmajor Funds	Description/Purpose
General Operating Fund	$ -	$ 7,022	Due from the Illinois Finance Authority Development Not for Profit Fund for the payment of legal fees
General Operating Fund	-	18,428	Due from the Renewable Energy Development Fund and Rural Development Revolving Loan Fund for the payment of administrative costs
Total	$ -	$ 25,450	

	Due to		
Funds	Major Funds	Nonmajor Funds	Description/Purpose
Nonmajor Funds	$ 25,450	$ -	Due to the General Operating Fund for the payment of administrative costs.
Total	$ 25,450	$ -	

Note 9. Interfund Transfers and Balances (Continued)

Transfers from/to other funds - Interfund transfers for the year ended June 30, 2016, were as follows:

	Transfers from		
Funds	Major Funds	Nonmajor Funds	Description/Purpose
General Operating Fund	$ -	$ 18	Transfer from Credit Enhancement Fund since funds are no longer needed for the program
Total	$ -	$ 18	

	Transfers to		
Funds	Major Funds	Nonmajor Funds	Description/Purpose
Credit Enhancement Fund	$ 18	$ -	Transfer to the General Operating Fund for excess program funds
Total	$ 18	$ -	

Note 10. Capital Assets

Capital assets activity for the year ended June 30, 2016, was as follows:

	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016
Capital assets being depreciated:				
Furniture and equipment	$ 195,313	$ 5,929	$ 7,336	$ 193,906
Computers	130,543	685	-	131,228
Software	287,799	-	-	287,799
Total capital assets being depreciated	613,655	6,614	7,336	612,933
Less: Accumulated depreciation				
Furniture and equipment	195,191	810	7,336	188,665
Computers	117,833	8,766	-	126,599
Software	230,585	38,199	-	268,784
Total accumulated depreciation	543,609	47,775	7,336	584,048
Capital assets, net of depreciation	$ 70,046	$ (41,161)	$ -	$ 28,885

The Authority's records were reconciled to the records maintained by the Comptroller of the State of Illinois as of June 30, 2016.

Note 11. Long-term Obligations

Revenue Bonds Payable

The following schedule details the changes of all revenue bonds payable as of June 30, 2016:

	Balance June 30, 2015	Additions	(Retirements)	Balance June 30, 2016	Amounts Due Within One Year
Northern Illinois University Foundation					
Series 2013	$ 3,506,627	$ -	$ (1,243,420)	$ 2,263,207	$ -
Illinois Environmental Protection Agency					
Clean Water Series 2013	119,150,000	-	(21,475,000)	97,675,000	20,355,000
Unamortized issuance premium	11,057,886	-	(3,133,169)	7,924,717	-
Illinois Medical District Commission					
Series 2006 A	6,355,000	-	(260,000)	6,095,000	270,000
Series 2006 B	29,925,000	-	(1,135,000)	28,790,000	1,190,000
	$ 169,994,513	$ -	$ (27,246,589)	$ 142,747,924	$ 21,815,000

The future debt service requirements for revenue bonds as of June 30, 2016, including interest payments are as follows:

Fiscal Year Ending June 30,	Total Outstanding Revenue Bonds Principal	Interest	Total
2017	$ 21,815,000	$ 6,399,370	$ 28,214,370
2018	22,154,528	5,313,943	27,468,471
2019	19,375,295	4,262,809	23,638,104
2020	16,721,082	3,341,367	20,062,449
2021	13,372,302	2,542,048	15,914,350
2022-2026	24,920,000	6,668,317	31,588,317
2027-2031	13,360,000	2,626,028	15,986,028
2032	3,105,000	81,095	3,186,095
	$134,823,207	$ 31,234,977	$166,058,184

Note 11. Long-term Obligations (Continued)

Revenue Bonds Payable (Continued)

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 loan 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 Authority has pledged future loan revenues to repay the outstanding principal of the revenue bonds. Proceeds from the bonds provided financing for various loan programs. The bonds are payable solely from principal and interest revenues under the related loans and are payable through the final maturity of the bonds in 2032. Principal and interest payments on the bonds are expected to require approximately 100% of these loan revenues. All bonds outstanding at June 30, 2016, 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 Illinois Finance Authority Act (20 ILCS 3501/801-40(c)). 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.

Moral Obligation - The Authority may issue revenue bonds with the State’s moral obligation pledge attached. This pledge means that in the event it is determined that money will not be available for payment of principal and interest of these obligations, the Governor is to submit the shortfall amount to the General Assembly for subsequent appropriation. Bonds issued on behalf of the Illinois Medical District Commission (“IMDC”) are considered moral obligation revenue bonds.

Component Units and Primary Government - The revenue bonds of the component units and primary government of the State of Illinois were not issued with the State’s moral obligation pledge attached (see exception for IMDC). Bonds issued for the benefit of other agencies and component units of the State of Illinois are comprised of the following:

State of Illinois Revolving Fund, Series 2013 (Clean Water Initiative) – The original issue of $141,700,000 dated December 5, 2013, provides for serial retirement of principal beginning July 1, 2014, and every January 1 and July 1, thereafter, and interest payable on January 1 and July 1 of each year at rates of 1.00% to 5.00%. Final maturity is July 1, 2023.

Illinois Medical District Commission, Series 2006A – The original issue of $7,500,000, dated January 31, 2006, provides for serial retirement of principal beginning September 1, 2010, and every September 1 thereafter, and interest payable on March 1 and September 1 of each year, at rates of 4.125% to 4.70%. Final maturity is September 1, 2031.

Illinois Medical District Commission, Series 2006B – The original issue of $32,500,000, dated January 31, 2006, provides for serial retirement of principal beginning September 1, 2010, and every September 1 thereafter, and interest payable on March 1 and September 1 of each year, at rates of 5.14% to 5.33%. Final maturity is September 1, 2031.

Northern Illinois University Foundation, Series 2013 – The principal amount is not to exceed $6,100,000 and provides for advances as needed to pay construction costs. Interest is payable February 15 and August 15 of each year commencing August 15, 2013, at the rate of 1.62%. Final maturity is February 15, 2021.

Note 11. Long-term Obligations (Continued)

Revolving Loans

Locally Held Fire Truck Revolving Loan Fund - The Fire Truck Revolving Loan program was authorized by the Illinois Finance Authority Act (20 ILCS 3501/825-80). The loan program is jointly administered by the Authority and the Office of the Illinois State Fire Marshal. The Fire Prevention Fund and Build Illinois Bond Fund originally loaned $9 million and $10 million, respectively, to the Authority, to fund zero-interest or low-interest loans for the purchase of fire trucks and brush trucks by fire departments, fire protection districts, or township fire departments based on need as determined by the State Fire Marshal. This transfer of funds was converted to program interest for the Authority, through a Locally Held Fund, as recorded on the financial statements for the fiscal year ended June 30, 2014. Under the terms of the program, the loans to any fire department, fire protection district, or township fire department may not exceed $350,000. A loan for the purchase of brush trucks may not exceed $100,000. The repayment period for each loan may not exceed 20 years and requires that a minimum of 5% of the principal amount borrowed is repaid each year.

Locally Held Ambulance Revolving Loan Fund - The Ambulance Revolving Loan program was authorized by the Illinois Finance Authority Act (20 ILCS 3501/825-85). The loan program is jointly administered by the Authority and the Office of the Illinois State Fire Marshal. The State's Fire Prevention Fund originally loaned $4 million to the Authority, to fund zero-interest or low-interest loans for the purchase of ambulances by fire departments, fire protection districts, township fire departments, or non-profit ambulance services based on need as determined by the State Fire Marshal. This transfer of funds was converted to program interest for the Authority, through a Locally Held Fund, as recorded on the financial statements for the fiscal year ended June 30, 2014. Under the terms of the program, the loans to any fire department, fire protection district, or non-profit ambulance service may not exceed $100,000. Loan repayment periods may not exceed 10 years and requires a minimum 5% of principal borrowed to be repaid each year.

Note 11. Long-term Obligations (Continued)

Revolving Loans (Continued)

In April 2014, the Authority and the Office of the State Fire Marshal entered into an intergovernmental agreement to jointly administer the Fire Truck, Fire Station, and Ambulance Revolving Loan programs. Shortly after the adoption of this intergovernmental agreement, the Office of the State Fire Marshal paid all moneys on deposit in these funds to the Authority for the sole purpose of funding loans under the loan programs as required by the Illinois Finance Authority Act. In addition, all moneys deposited in the future into the State Treasury's Fire Truck Revolving Loan and Ambulance Revolving Loan Funds, will be paid to the Authority to provide future funding for loans. In Fiscal Year 2016, with regards to these deposits, the State of Illinois transferred capital of $425,846 for the Fire Truck Revolving Loan program to the Authority.

In addition, per the implementation of Public Act 97-0901, the Authority, for financial reporting purposes only, does not report balances due to the primary government within the Authority's funds. As the principal and interest amounts collected from the local governments and non-profit entities will ultimately be retained by the Authority, the Authority no longer possesses a present obligation to sacrifice the resources represented by the loans and interest receivable from the local governments and non-profit entities to the State.

Intermediary Relending Program - The predecessor authorities (see Note 1) entered into loan agreements, now a liability of the Authority, with the U.S. Department of Agriculture's Rural Development Administration (formerly the Farmers Home Administration), a federal agency, on December 14, 1990, for funding of the 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 existing outstanding and future loans receivable of the IRP, by cash and investments recorded in the Rural Development Revolving Loan 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.

Changes in loan payables for the Rural Development Revolving Loan are summarized below:

	Balance, June 30, 2015	Repayments	Balance, June 30, 2016	Due Within One Year
Rural Development Revolving Loan	$ 369,080	$ 59,984	$ 309,096	$ 60,584

Note 11. Long-term Obligations (Continued)

Revolving Loans (Continued)

Principal and interest payments for the loans due at June 30, 2016, are as follows:

Year Ending June 30,	Principal	Interest	Total
2017	$ 60,584	$ 3,091	$ 63,675
2018	61,190	2,485	63,675
2019	61,802	1,873	63,675
2020	62,420	1,255	63,675
2021	63,100	631	63,731
	$ 309,096	$ 9,335	$ 318,431

Note 12. Refunding and Extinguishment of Debt

Defeasance of Revenue Bonds

On June 30, 2014, the Authority deposited $34,932,649 in an irrevocable trust to defease all outstanding Illinois Rural Bond Bank revenue bonds, with the par value of $32,355,000. As a result, these bonds are considered to be defeased. The liability for these bonds has been removed from the Statement of Net Position, because related assets were placed in an irrevocable trust that, together with interest earned, will provide amounts sufficient for payment of all principal and interest.

During Fiscal Year 2016, there were no additional refundings for the Illinois Rural Bond Bank's revenue bonds. For currently outstanding bonds, the amount remaining in escrow for future debt service payments as of June 30, 2016, is $11,120,000.

Previously defeased bonds in escrow as of June 30, 2016, are as follows:

	Amount Defeased as of June 30, 2014	Amount Outstanding in Escrow
Illinois Rural Bond Bank:		
2007 A Bonds	$ 5,040,000	$ 4,800,000
2007 B Bonds	1,370,000	1,145,000
2008 A Bonds	1,560,000	1,505,000
2009 A Bonds	3,845,000	3,670,000
	$ 11,815,000	$ 11,120,000

Note 13. Lease Commitments

Operating Leases

Total rent expense for all three Illinois Finance Authority locations for the year ended June 30, 2016 was $113,583, including utilities.

State of Illinois, Department of Central Management Services/Michael A. Bilandic Building – On August 1, 2015, the Chicago Office of the Authority relocated to the tenth floor of the Michael A. Bilandic building (a State-owned facility) at 160 N. LaSalle Street, Suite S-1000 in Chicago, Illinois 60601. As the building is managed by the Department of Central Management Services, the Authority compensates the State of Illinois for the use of its office space. Total rent expense for the year ended June 30, 2016, was $98,086.

State of Illinois, Department of Commerce and Economic Opportunity - The Authority entered into an interagency agreement with the Department of Commerce and Economic Opportunity to lease office space in Springfield, with no charge to the Authority, effective July 1, 2016, until June 30, 2019.

One Oaks - The Authority entered into a rental lease agreement for office space for its Mount Vernon Office at 2929 Broadway, Suite #7B; Mount Vernon, Illinois 62864. The initial term of the lease expires on June 30, 2019. The lessee has the right to renew the lease for a further period of 60 months, at the rate in effect during the final month of the lease term, beginning in 2020. Annual base rent payments are approximately $12,906, with utilities charged per the rental agreement.

Equipment Leases - The Authority entered into an equipment lease agreement for an additional digital copier for its Chicago office, for a term of 36 months. The lease expires in February 2018. The annual base rental payments for this lease are approximately $3,648. The Authority has a total of four equipment lease agreements for its Chicago office and one equipment lease for its Mount Vernon office, totaling approximately $13,297, for the year ended June 30, 2015.

The future minimum lease commitments as of June 30, 2016, are as follows:

Fiscal Year Ending June 30	Amount
2017	$ 27,821
2018	18,561
2019	16,386
	$ 62,768

Letter of Credit

The letter of credit for the previous office lease at Two Prudential Plaza, expired as of July 15, 2015.

Note 14. Commitments and Contingencies

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 predecessor Illinois Development Finance Authority if the company liable under the bond indenture were to default on repayment of the bond. At June 30, 2016, restricted demand deposits totaling $600,000 were held in the Credit Enhancement Fund for this purpose.

Current Federally Assisted Programs

<u>FmHA – Intermediary Relending Program</u>

The Authority currently participates in the FmHA Intermediary Relending Program, a federally assisted program. Demand deposits of $1,830,416 are held in the Rural Development Revolving Loan Fund, which are restricted due to FmHA - Intermediary Relending Program requirements. In addition, included in the fund's restricted assets is $174,631 in net loans receivable which secure the loans of the intermediary relending program.

Loan Guarantees

The Authority has a contingent liability regarding the loan guarantees outstanding at June 30, 2016. 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 State Treasurer maintains the cash and cash equivalents of the Illinois Agricultural Loan Guarantee Fund and the Illinois Farmer Agribusiness Loan Guarantee Fund which are restricted by enabling legislation to secure the State guarantees. The Authority must first 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.

Note 14. Commitments and Contingencies (Continued)

Loan Guarantees (Continued)

According to the certifications received by the Authority from lenders, the maximum guarantees outstanding and the corresponding cash deposits used to secure the liabilities are as follows:

	Balance at June 30, 2016		
	Illinois Agricultural Loan Guarantee Fund	Illinois Farmer Agribusiness Loan Guarantee Fund	Total
Cash Deposits	$ 10,050,319	$ 7,881,462	$ 17,931,781
Maximum Outstanding Guarantees:			
State Guarantee Program for Restructuring Agricultural Debt	6,824,437	-	6,824,437
Specialized Livestock Loan Guarantee Program	-	1,681,563	1,681,563
Young Farmer Loan Guarantee Program	-	850,464	850,464
Farmer and Agri-Business Loan Guarantee Program	-	3,693,098	3,693,098
Farm Purchase Program	-	886,805	886,805
Total	$ 6,824,437	$ 7,111,930	$ 13,936,367

Approved payouts specific to the Specialized Livestock Loan Guarantee Program, the Young Farmer Loan Guarantee Program, and the Farm Purchase Program, may be made from either the Illinois Agricultural Loan Guarantee Fund or the Illinois Farmer Agribusiness Loan Guarantee Fund per statute. In addition to the loan guarantee funds held by the State Treasury, the Illinois Finance Authority Act (20 ILCS 3501/805-20(j)), authorizes the Authority to make payments on State guarantees from the Industrial Project Insurance Fund. This fund has cash and investments totaling $11,828,794 at June 30, 2016.

Based on the actuarial results, the Authority has reserved $441,869 on behalf of these loans in the Illinois Farmer Agribusiness Loan Guarantee Fund.

Note 15. Risk Financing Activities

The Authority addresses the possibility of loss due to certain business related operations such as theft, asset damage, employee injuries, or natural disasters through the purchase of commercial insurance coverage. The Authority's coverage under its current risk management policy has not experienced any significant changes nor has the impact of any settlements exceeded coverage over the past three years.
The Authority maintains sufficient cash balances and/or liquidity in its General Operating Fund to appropriately handle any associated financial obligations that may occur due to the above mentioned risks.

Note 16. Defined Contribution Plan

The Authority's members approved the Illinois Finance Authority Deferred Compensation Plan ("Plan"). The Authority's members have the power to amend the Plan. The Plan is administered through the State of Illinois, Department of Central Management Services and the Plan is considered a defined contribution plan. This plan allows participants 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. The employee may begin participating in the Plan after 30 days of employment have been completed.

The maximum contributions through the calendar year 2016 are:

Year	Maximum Contribution	Age 50 Catch Up
2016	$18,000	$24,000

The 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 2016 were $124,666 and $150,437, respectively.

Note 17. Transactions with the Primary Government

The Authority is principally engaged in issuing taxable and tax-exempt bonds, making loans, and investing capital for businesses, non-profit corporations, local government units, and primary government including component units of the State of Illinois. This includes moral obligation bonds which were inherited from the predecessor Illinois Development Finance Authority used to finance a primary government project. The Authority also administers certain programs for the State.

<u>Due to primary government ("OAG")</u> - The Office of the Auditor General ("OAG") engaged an external audit firm to perform an audit of the Illinois Finance Authority's basic financial statements. The General Operating Fund of the Authority is indebted with the Office of the Auditor General in the amount of $85,001 for audit related fees.

<u>Due to primary government ("CMS")</u> – The Department of Central Management Services ("CMS") is the manager of real property for the State of Illinois. As such, amounts due for monthly rent expense and telecommunications costs for the Chicago Office have been incurred by the Authority and owed to CMS as of June 30, 2016. The Authority is indebted with CMS in the amount of $26,207. This amount is a component of the amount reported as account payable in the Authority's General Operating Fund.

Note 18. Subsequent Events

On September 12, 2016, the Authority issued $500,000,000 in Illinois Finance Authority State of Illinois Clean Water Initiative Revolving Fund Revenue Bonds (Illinois Environmental Protection Agency State Revolving Fund), Series 2016 ("Illinois Clean Water Initiative Bonds, Series 2016"; see www.emma.msrb.org for the Official Statement of the Illinois Clean Water Initiative Bonds, Series 2016 with a final maturity of July 1, 2036). In Fiscal Year 2008, the Authority adopted and implemented GASB Interpretation No. 2, *Disclosure of Conduit Debt Obligations – an interpretation of the National Council on Governmental Accounting (NCGA) Statement 1* (August 1995) ("GASB Interpretation No. 2"). See Authority Financial Audit for the Year Ended June 30, 2008, RSM US LLP, formerly McGladrey & Pullen Certified Public Accountants, Performed as Special Assistant Auditors for the Auditor General, State of Illinois, Independent Auditors' Report, p. 3; Notes to Financial Statements, paragraph (p), ***Adoption of New Accounting Principles,*** of Section 2, **Summary of Significant Accounting Policies**, pp. 12-13; see also, www.auditor.illinois.gov). GASB Interpretation No. 2 requires that the Authority carry on its balance sheet certain cash, notes receivable and bonds payable attributable to bonds issued by the Authority to benefit other funds and component units of the State of Illinois. Under GASB Interpretation No. 2, the Illinois Clean Water Initiative Bonds, Series 2016, benefit the Illinois Environmental Protection Agency, a component unit of the State of Illinois. Accordingly, in the audit period that will end June 30, 2017, the Authority anticipates increasing its balance sheet by approximately $500,000,000 consistent with the GASB Interpretation No. 2 and the amount of the outstanding Illinois Clean Water Initiative Bonds, Series 2016.

In Fiscal Year 2008, the Authority adopted and implemented GASB Interpretation No. 2, *Disclosure of Conduit Debt Obligations – an interpretation of the National Council on Governmental Accounting (NCGA) Statement 1* ("GASB Interpretation No. 2"). GASB Interpretation No. 2 requires the Authority carry on its statement of net position, certain cash, notes receivable and bonds payable attributable to bonds issued by the Authority to benefit other funds and component units of the State of Illinois, including bonds issued on behalf of the Illinois Environmental Protection Agency (Clean Water Initiative/State Revolving Fund), Northern Illinois University, and those bonds issued by the Authority and enhanced with the State's moral obligation (see 40 ILCS 3501/801-40(w)) such as the Illinois Medical District Commission's tax-exempt revenue bonds, Series 2006A ($7.5 million) and taxable revenue bonds, Series 2006B ($32.5 million) (collectively, the "2006 Bonds"; for additional information see www.emma.msrb.org). Since May 20, 2009, the release date of the Fiscal Year 2008 Authority Financial Audit, the Authority has carried the 2006 Bonds on its balance sheet.

On November 15, 2016, the Commission met and approved the sale of certain Commission-owned property and authorized the redemption of the outstanding 2006 Bonds. If the 2006 Bonds are redeemed, the Authority will no longer carry any Commission financial activities on its statement of net position.

Supplementary Information

State of Illinois
Illinois Finance Authority
(A Component Unit of the State of Illinois)

Combining Statement of Net Position-Nonmajor Funds
For the Year Ended June 30, 2016

	Industrial Project Insurance Fund	Locally Held Fire Truck Revolving Loan fund	Locally Held Ambulance Revolving Loan Fund	Credit Enhancement Fund
ASSETS				
Current assets:				
Current unrestricted assets:				
Cash and cash equivalents	$ -	$ -	$ -	$ -
Investments	-	-	-	-
Accrued interest receivable	-	-	-	-
Due from other local government agencies	-	-	-	-
Total current unrestricted assets	-	-	-	-
Current restricted assets:				
Cash and cash equivalents	753,637	1,207,873	3,939,396	-
Investments	5,904,066	85,240	35,074	-
Recievables from pending investment sales	-	-	-	-
Securities lending collateral equity with the State Treasurer	-	-	-	-
Accrued interest receivable	30,362	7,949	49	-
Loans receivables, net	-	1,816,438	74,320	-
Total current restricted assets	6,688,065	3,117,500	4,048,839	-
Total current assets	6,688,065	3,117,500	4,048,839	-
Noncurrent assets:				
Noncurrent unrestricted assets:				
Investments	-	-	-	-
Total noncurrent unrestricted assets	-	-	-	-
Noncurrent restricted assets:				
Cash and cash equivalents	-	-	-	600,000
Investments	5,171,091	-	-	-
Accrued interest receivable	-	-	-	-
Loans receivables, net	-	19,449,126	172,960	-
Total noncurrent restricted assets	5,171,091	19,449,126	172,960	600,000
Total noncurrent assets	5,171,091	19,449,126	172,960	600,000
Total assets	11,859,156	22,566,626	4,221,799	600,000
DEFERRED OUTFLOWS OF RESOURCES				
Net loss on debt refundings	-	-	-	-
Total deferred outflows of resources	-	-	-	-
Total assets and deferred outflows of resources	11,859,156	22,566,626	4,221,799	600,000

Illinois Agricultural Loan Guarantee Fund	Illinois Farmer Agribusiness Loan Guarantee Fund	Rural Development Revolving Loan Fund	Illinois Housing Partnership Program Fund	Renewable Energy Development Fund	Illinois Finance Authority Development Not-for-Profit Fund	Total Nonmajor Funds
$ -	$ -	$ -	$ 35,079	$ -	$ -	$ 35,079
-	-	-	879,323	-	-	879,323
-	-	-	5,121	-	-	5,121
-	-	-	2,333,795	-	-	2,333,795
-	-	-	3,253,318	-	-	3,253,318
-	-	1,830,416	-	43,993	19,248	7,794,563
-	-	-	-	385,978	-	6,410,358
-	-	-	-	-	-	-
2,659,000	2,085,000	-	-	-	-	4,744,000
-	-	3,494	-	3,046	-	44,900
-	-	22,234	-	98,216	-	2,011,208
2,659,000	2,085,000	1,856,144	-	531,233	19,248	21,005,029
2,659,000	2,085,000	1,856,144	3,253,318	531,233	19,248	24,258,347
-	-	-	972,139	-	-	972,139
-	-	-	972,139	-	-	972,139
10,050,319	7,881,462	-	-	-	-	18,531,781
-	-	-	-	631,243	-	5,802,334
5,000	4,000	-	-	-	-	9,000
-	-	152,397	-	1,107,839	-	20,882,322
10,055,319	7,885,462	152,397	-	1,739,082	-	45,225,437
10,055,319	7,885,462	152,397	972,139	1,739,082	-	46,197,576
12,714,319	9,970,462	2,008,541	4,225,457	2,270,315	19,248	70,455,923
-	-	-	-	-	-	-
-	-	-	-	-	-	-
12,714,319	9,970,462	2,008,541	4,225,457	2,270,315	19,248	70,455,923

State of Illinois
Illinois Finance Authority
(A Component Unit of the State of Illinois)

Combining Statement of Net Position-Nonmajor Funds (Continued)
For the Year Ended June 30, 2016

	Industrial Project Insurance Fund	Locally Held Fire Truck Revolving Loan fund	Locally Held Ambulance Revolving Loan Fund	Credit Enhancement Fund
LIABILITIES				
Current liabilities:				
Payable from unrestricted current assets:				
Accounts payable	$ -	$ -	$ -	$ -
Payables from pending investment purchases	-	-	-	-
Total current liabilities payable from unrestricted current assets	-	-	-	-
Payable from restricted current assets:				
Accounts payable	1,773	32	55	-
Due to other funds	-	-	-	-
Obligation under securities lending of the State Treasurer	-	-	-	-
Accrued interest payable	-	-	-	-
Current portion of long-term debt	-	-	-	-
Other liabilities	-	-	-	-
Total current liabilities payable from restricted current assets	1,773	32	55	-
Total current liabilities	1,773	32	55	-
Noncurrent liabilities:				
Payable from restricted noncurrent assets:	-			
Noncurrent portion of long-term debt	-	-	-	-
Noncurrent loan reserve	-	-	-	-
Total noncurrent liabilities payable from restricted noncurrent assets	-	-	-	-
Total noncurrent liabilities	-	-	-	-
Total liabilities	1,773	32	55	-
DEFERRED INFLOWS OF RESOURCES:				
NET POSITION				
Restricted for:				
Industrial revenue debt and agricultural guarantees	11,857,383	-	-	-
Public safety loans	-	22,566,594	4,221,744	-
Agricultural and rural development loans	-	-	-	-
Renewable energy development	-	-	-	-
Credit enhancement	-	-	-	600,000
Low income community investments	-	-	-	-
Unrestricted	-	-	-	-
Total net position	$ 11,857,383	$ 22,566,594	$ 4,221,744	$ 600,000

Illinois Agricultural Loan Guarantee Fund	Illinois Farmer Agribusiness Loan Guarantee Fund	Rural Development Revolving Loan Fund	Illinois Housing Partnership Program Fund	Renewable Energy Development Fund	Illinois Finance Authority Development Not-for-Profit Fund	Total Nonmajor Funds
$ -	$ -	$ -	$ 297	$ -	$ -	$ 297
-	-	-	30,137	-	-	30,137
-	-	-	30,434	-	-	30,434
-	-			10,199	-	12,059
-	-	5,825		12,603	7,022	25,450
2,659,000	2,085,000	-	-	-	-	4,744,000
-	-	1,803	-	-	-	1,803
-	-	60,584	-	-	-	60,584
-	-	-	-	-	-	-
2,659,000	2,085,000	68,212	-	22,802	7,022	4,843,896
2,659,000	2,085,000	68,212	30,434	22,802	7,022	4,874,330
-	-	248,512	-	-	-	248,512
-	441,869	-	-	-	-	441,869
-	441,869	248,512	-	-	-	690,381
-	441,869	248,512	-	-	-	690,381
2,659,000	2,526,869	316,724	30,434	22,802	7,022	5,564,711
-	-	-	-	-	-	11,857,383
-	-	-	-	-	-	26,788,338
10,055,319	7,443,593	1,691,817	-	-	-	19,190,729
-	-	-	-	2,247,513	-	2,247,513
-	-	-	-	-	-	600,000
-	-	-	-	-	12,226	12,226
-	-	-	4,195,023	-	-	4,195,023
$ 10,055,319	$ 7,443,593	$ 1,691,817	$ 4,195,023	$ 2,247,513	$ 12,226	$ 64,891,212

State of Illinois
Illinois Finance Authority
(A Component Unit of the State of Illinois)

Combining Statement of Revenues, Expenses and Changes in Net Position-Nonmajor Funds
For the Year Ended June 30, 2016

	Industrial Project Insurance Fund	Locally Held Fire Truck Revolving Loan Fund	Locally Held Ambulance Revolving Loan Fund	Credit Enhancement Fund
Operating revenues:				
Closing fees	$ -	$ -	$ -	$ -
Miscellaneous fees	-	-	-	-
Interest income - loans	-	7,735	-	-
Total operating revenue	-	7,735	-	-
Operating expenses:				
Professional services	6,748	1,514	1,879	-
General and administrative	-	-	-	-
Interest expense	-	-	-	-
Total operating expenses	6,748	1,514	1,879	-
Operating income (loss)	(6,748)	6,221	(1,879)	-
Nonoperating revenues (expenses):				
Transfer of funds and interest in program from the State of Illinois	-	425,846	-	-
Interest and investment income	102,067	28,866	14,431	18
Bad debt expense	-	-	-	-
Bad debt recoveries	-	-	-	-
Total nonoperating revenues (expenses)	102,067	454,712	14,431	18
Net income before transfers	95,319	460,933	12,552	18
Transfers:				
Transfers out to other funds	-	-	-	(18)
Total transfers in (out)	-	-	-	(18)
Change in net position	95,319	460,933	12,552	-
Net position - beginning of year	11,762,064	22,105,661	4,209,192	600,000
Net position - end of year	$ 11,857,383	$ 22,566,594	$ 4,221,744	$ 600,000

Illinois Agricultural Loan Guarantee Fund	Illinois Farmer Agribusiness Loan Guarantee Fund	Rural Development Revolving Loan Fund	Illinois Housing Partnership Program Fund	Renewable Energy Development Fund	Illinois Finance Authority Development Not-for-Profit Fund	Total Nonmajor Funds
$ -	$ -	$ -	$ -	$ -	$ -	$ -
-	-	213	-	-	-	213
-	-	11,249	-	25,272	541	44,797
-	-	11,462	-	25,272	541	45,010
-	-	5,825	1,156	13,112	5,721	35,955
-	-	-	-	-	7,089	7,089
-	-	3,291	-	-	-	3,291
-	-	9,116	1,156	13,112	12,810	46,335
-	-	2,346	(1,156)	12,160	(12,269)	(1,325)
-	-	-	-	-	-	425,846
50,278	39,058	658	18,223	9,520	-	263,119
-	-	-	(666,205)	-	-	(666,205)
-	120,806	1,313	-	-	-	122,119
50,278	159,864	1,971	(647,982)	9,520	-	144,879
50,278	159,864	4,317	(649,138)	21,680	(12,269)	143,554
-	-	-	-	-	-	(18)
-	-	-	-	-	-	(18)
50,278	159,864	4,317	(649,138)	21,680	(12,269)	143,536
10,005,041	7,283,729	1,687,500	4,844,161	2,225,833	24,495	64,747,676
$ 10,055,319	$ 7,443,593	$ 1,691,817	$ 4,195,023	$ 2,247,513	$ 12,226	$ 64,891,212

State of Illinois
Illinois Finance Authority
(A Component Unit of the State of Illinois)

Combining Statement of Cash Flows-Nonmajor Funds
For the Year Ended June 30, 2016

	Industrial Project Insurance Fund	Locally Held Fire Truck Revolving Loan Fund	Locally Held Ambulance Revolving Loan Fund	Credit Enhancement Fund
Cash flows from operating activities:				
Cash received for fees and other	$ -	$ -	$ -	$ -
Cash payments to suppliers for goods and services	(6,606)	(2,444)	(2,414)	-
Net cash used in operating activities	(6,606)	(2,444)	(2,414)	-
Cash flows from noncapital financing activities:				
Bonds and notes principal payments	-	-	-	-
Interest payments	-	-	-	-
Permanent capital transfer from the State	-	425,846	-	-
Permanent capital transfer to the State	-	-	-	-
Due from other funds	-	-	-	-
Due to other funds	-	-	-	-
Transfers to other funds	-	-	-	(18)
Net cash provided by (used in) noncapital financing activities	-	425,846	-	(18)
Cash flows from investing activities:				
Purchase of investments	(5,959,832)	(1,111,928)	(4,577,161)	-
Sales and maturities of investments	5,580,070	4,568,105	8,360,694	-
Cash received on loan receivables and guarantees	-	1,457,378	74,320	-
Cash received for interest on loans	-	-	-	-
Cash payments on loan receivables and guarantees	-	(7,174,865)	-	-
Interest and dividends on investments	128,277	39,046	35,993	18
Net cash provided by (used in) investing activities	(251,485)	(2,222,264)	3,893,846	18
Net increase (decrease) in cash and cash equivalents	(258,091)	(1,798,862)	3,891,432	-
Cash and cash equivalents - beginning of year	1,011,728	3,006,735	47,964	600,000
Cash and cash equivalents - end of year	$ 753,637	$ 1,207,873	$ 3,939,396	$ 600,000
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	$ (6,748)	$ 6,221	$ (1,879)	$ -
Adjustments to reconcile operating income (loss) to net cash used in operating activities:				
Interest on loans	-	(7,735)	-	-
Interest expense	-	-	-	-
Changes in assets and liabilities:				
Accounts payable	142	(930)	(535)	-
Net cash used in operating activities	$ (6,606)	$ (2,444)	$ (2,414)	$ -

Illinois Agricultural Loan Guarantee Fund	Illinois Farmer Agribusiness Loan Guarantee Fund	Rural Development Revolving Loan Fund	Illinois Housing Partnership Program Fund	Renewable Energy Development Fund	Illinois Finance Authority Development Not-for-Profit Fund	Total Nonmajor Funds
$ -	$ -	$ 213	$ -	$ -	$ 541	$ 754
-	-	(5,825)	(1,138)	(3,030)	(12,810)	(34,267)
-	-	(5,612)	(1,138)	(3,030)	(12,269)	(33,513)
-	-	(59,984)	-	-	-	(59,984)
-	-	(3,691)	-	-	-	(3,691)
-	-	-	-	-	-	425,846
-	-	-	-	-	-	-
-	-	(6,162)	-	(13,499)	-	(19,661)
-	-	5,825	-	12,603	7,022	25,450
-	-	-	-	-	-	(18)
-	-	(64,012)	-	(896)	7,022	367,942
-	-	-	(921,364)	(669,088)	-	(13,239,373)
-	-	-	883,560	410,996	-	19,803,425
-	-	21,881	-	96,206	-	1,649,785
-	-	11,650	-	25,206	-	36,856
(155,000)	-	-	-	-	-	(7,329,865)
49,278	38,058	658	21,821	9,122	-	322,271
(105,722)	38,058	34,189	(15,983)	(127,558)	-	1,243,099
(105,722)	38,058	(35,435)	(17,121)	(131,484)	(5,247)	1,577,528
10,156,041	7,843,404	1,865,851	52,200	175,477	24,495	24,783,895
$ 10,050,319	$ 7,881,462	$ 1,830,416	$ 35,079	$ 43,993	$ 19,248	$ 26,361,423
$ -	$ -	$ 2,346	$ (1,156)	$ 12,160	$ (12,269)	$ (1,325)
-	-	(11,249)	-	(25,272)	-	(44,256)
-	-	3,291	-	-	-	3,291
-	-	-	18	10,082	-	8,777
$ -	$ -	$ (5,612)	$ (1,138)	$ (3,030)	$ (12,269)	$ (33,513)

Independent Auditor's 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 Frank J. Mautino
Auditor General
State of Illinois

and

Board of Directors
Illinois Finance Authority

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the 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, the financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of the State of Illinois, Illinois Finance Authority, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the State of Illinois, Illinois Finance Authority's basic financial statements, and have issued our report thereon dated December 16, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the State of Illinois, Illinois Finance Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion(s) 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. Accordingly, we do not express an opinion on the effectiveness of the State of Illinois, Illinois Finance Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identifed. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings as item 2016-001 that we consider to be a significant deficiency.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the State of Illinois, Illinois Finance Authority's financial statements are free from 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.*

State of Illinois, Illinois Finance Authority
The State of Illinois, Illinois Finance Authority's response to the finding identified in our audit is described in the accompanying schedule of findings. The State of Illinois, Illinois Finance Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

SIGNED ORIGINAL ON FILE

Schaumburg, Illinois
December 16, 2016

Current Findings – *Government Auditing Standards*

Finding 2016-001 Failure to Write Off Uncollectible Balances

The Illinois Finance Authority ("Authority") has loan and guarantee receivables from non-conduit debt recorded in their financial books and records that should be removed due to the balances being uncollectible.

During testing, the auditors noted the following amounts, by fund, where the Authority recorded a loan or guarantee receivable and corresponding allowance of 100%. The Authority anticipates writing off these balances.

General Operating Fund	$	936,359
Illinois Agricultural Loan Guarantee Fund		170,902
Illinois Farmer and Agribusiness Loan Guarantee Fund		223,224
	$	1,330,485

In addition, for the past several years, the Authority has carried on its books investments in partnerships and other companies totaling $2,971,385 for which a 100% allowance for a decline in market value was recognized. Authorization from the Illinois Attorney General should be obtained to write off these balances. No activity occurred in the current year relating to the write off of these balances.

The Authority has not consistently made requests of the Illinois Attorney General and the Authority has not performed timely follow-up on prior requests of the Illinois Attorney General. Accordingly, uncollectible balances that should have been addressed in previous years have remained on the books and records of the Authority.

In accordance with generally accepted accounting principles, receivable balances and investments that are uncollectible should be written off and removed from the Authority's financial statements. The Illinois Uncollected State Claims Act (30 ILCS 205/2) requires that any State agency that is unable to collect any claim or account receivable of $1,000 or more shall request the Illinois Attorney General to certify the claim or account receivable to be uncollectible.

Authority officials stated most of the uncollectible accounts and investments were inherited from the predecessor authorities and requests in prior years to the Illinois Attorney General to write off these uncollectible accounts were denied. During Fiscal Year 2016, the Authority resubmitted its write off request to the Illinois Attorney General and it received permission to write off balances totaling $104,816. Currently, the Authority is working on putting together a new request to the Illinois Attorney General to write off the remaining receivables and investments in partnerships with no value.

The Authority is not in compliance with the Illinois Uncollected State Claims Act and the effect of not writing off receivable and investment balances and the corresponding allowance for doubtful accounts results in overstatements of these balances in the Authority's books and records. (Finding Code No. 2016-001, 2015-002, 2014-002, 2013-004)

Current Findings – *Government Auditing Standards* (Continued)

Finding 2016-001 Failure to Write Off Uncollectible Balances (Continued)

Recommendation

We recommend the Authority continue to work with the Illinois Attorney General to receive approval to write off uncollectible balances.

Authority Response

In accordance with State law, the Authority cannot write off receivable balances that are uncollectible and investments that have no value without the permission of the Illinois Attorney General. Even though the Authority continues to show these balances in our general ledger, along with the corresponding allowance account, for the financial report the Authority nets the receivables and investment balances with the corresponding allowance so as not to overstate these balances. We accept the auditor's recommendation and will continue to work with the Illinois Attorney General to receive approval to write off these uncollectible balances.

Prior Finding Not Repeated

A. Inaccurate Financial Statements for the Industrial Project Insurance Fund, the Illinois Agricultural Loan Guarantee Fund, and the Illinois Farmer and Agribusiness Loan Guarantee Fund

During the financial audit as of and for the year ended June 30, 2015, the Illinois Finance Authority ("Authority") did not prepare accurate financial statements for the Authority's Industrial Project Insurance Fund, the Illinois Agricultural Loan Guarantee Fund, and the Illinois Farmer and Agribusiness Loan Guarantee Fund. (Finding Code No. 2015-001)

Status: Not Repeated

During the financial audit as of and for the year ended June 30, 2016, the auditor's testing indicated the Authority improved its financial reporting for the Authority's Industrial Project Insurance Fund, the Illinois Agricultural Loan Guarantee Fund, and the Illinois Farmer and Agribusiness Loan Guarantee Fund. None of the errors noted in the prior year finding were repeated in the current year. Additionally, the Authority sought and obtained legislative changes to permit some of the types of transactions that were previously prohibited. On June 24, 2016, Public Act 99-0509 (Act) was enacted into law with an immediate effective date. This Act grants flexibility to the Authority for risk management purposes by allowing the Authority to allocate potential claims under the guarantee programs among the three funds.