State of Illinois
Illinois Finance Authority

Financial Audit
For the Year Ended June 30, 2017

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, 2017

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Agency Officials

Chairman of the Board of Directors	Mr. Eric Anderberg (4/18/17 – Present)
Chairman of the Board of Directors	Mr. R. Robert Funderburg, Jr. (7/1/16 -4/13/17)
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. Eric Anderberg
Member	Ms. Gila J. Bronner
Member	Mr. James J. Fuentes
Member	Mr. Michael W. Goetz
Member	Mr. Robert Horne
Member	Ms. Arlene Juracek
Member	Mr. Lerry Knox
Member	Mr. Lyle McCoy
Member (7/8/16 – Present)	Mr. George Obernagel
Member	Mr. Terrence M. O'Brien
Member	Mr. Roger Poole
Member (10/5/12 – 7/25/16)	Mr. Mordecai Tessler
Member (7/25/16 – Present)	Ms. Beth Smoots
Member (7/9/15 – 10/9/17)	Mr. John Yonover
Member	Mr. Bradley A. Zeller

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 record and reconcile certain cash balances that they considered to be a significant deficiency. This significant deficiency is 2017-001, Failure to Reconcile and Record Cash Received.

Exit Conference

The Authority waived an exit conference in correspondence dated November 20, 2017. Response to the recommendation was provided by Chris Meister, Executive Director, in correspondence dated November 20, 2017.

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, as of and for the year ended June 30, 2017, 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 State of Illinois, Illinois Finance Authority, as of June 30, 2017, 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 that portion of the business-type activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the State of Illinois, Illinois Finance Authority. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2017, 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 6-19 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 6, 2017 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State of Illinois, Illinois Finance Authority's 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 6, 2017

Our discussion and analysis of the financial performance of the Illinois Finance Authority (the "Authority"), a component unit of the State of Illinois, provides an overview of financial activities for the fiscal year ended June 30, 2017. Because the intent of this management's 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 under Statement of Net Position, Total Assets and Deferred Outflows of Resources among the General Operating Fund, Other State of Illinois Debt Fund, and Nonmajor Funds equaled $822.4 million in Fiscal Year 2017 while Total Liabilities across all three categories equaled $700.6 million. Total Assets and Deferred Outflows of Resources increased $551.5 million and Total Liabilities similarly increased $548.3 million from Fiscal Year 2016. These overall increases in Total Assets, Deferred Outflows of Resources, and Total Liabilities were primarily attributable to the issuance of $500 million Illinois Finance Authority State of Illinois Clean Water Initiative Revolving Fund Revenue Bonds, Series 2016 ("Illinois Clean Water Initiative Bonds, Series 2016") on behalf of the Illinois Environmental Protection Agency, which is part of the primary government.

On the Statement of Revenues, Expenses and Changes in Net Position, Total Revenues were $21.6 million or 105.7% higher than Fiscal Year 2016 while Total Expenses were $18.5 million or 102.8% higher than Fiscal Year 2016. Total Revenue increased $11.1 million due to greater operating and nonoperating Interest and Investment Income in the Other State of Illinois Debt Fund as a result of the Illinois Clean Water Initiative Bonds, Series 2016. Operating expenses similarly increased $7.2 million, primarily driven by greater interest expense in the Other State of Illinois Debt Fund as a result of the Illinois Clean Water Initiative Bonds, Series 2016.

Net Position in the General Operating Fund and Nonmajor Funds increased $2.9 million and $255 thousand, respectively, resulting in a Total Net Position of $121.8 million which was an increase of 2.6% compared to Fiscal Year 2016.

In addition to issuance of the Illinois Clean Water Initiative Bonds, Series 2016 on behalf of the Illinois Environmental Protection Agency as part of the primary government during Fiscal Year 2017, the Authority also recognized certain activities taken by the Illinois Medical District Commission as a State of Illinois component unit during Fiscal Year 2017. The Illinois Medical District Commission redeemed all of its outstanding Series 2006A Bonds and $13.6 million of its outstanding Series 2006B Bonds on May 15, 2017. As of June 30, 2017, approximately $14.1 million principal amount of Series 2006B Bonds secured by the moral obligation of the State of Illinois remained outstanding.

As reflected in the Authority's Nonmajor Funds, the Authority received final repayment by the City of Chicago ("City") in the approximate amount of $2.4 million during Fiscal Year 2017 with respect to the Authority's Illinois Housing Partnership Program ("IHPP"). Established by the Illinois General Assembly in 1985 in order to finance the acquisition and renovation of multi-family housing units, a predecessor to the Authority entered into the IHPP loan program with the City in 1986 acting as a pass-through entity.

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 loan 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.

Fiscal Year 2017 was unique from a State budget perspective. A stopgap appropriations bill was enacted along with an implementation act on June 30, 2016 that fully funded all State agencies in Fiscal Year 2017 until January 1, 2017, with limited exceptions (See Public Act 99-0524 and Public Act 99-0523). During this six-month timeframe, the Authority successfully issued the Illinois Clean Water Initiative Bonds, Series 2016. Thereafter, on January 1, 2017, a budget impasse was incurred for the final six months of Fiscal Year 2017.

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.

Between July 2016 and June 2017, the Authority acquired receivables in the amount of $5.9 million from the Illinois Department of Corrections, Illinois Department of Veterans Affairs, and the Illinois Department of Central Management Services pursuant to one or more assignment agreements with certain 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 acquisitions, 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 one or more of the following reasons applied: (1) threats to public health or public safety, or (2) 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. During Fiscal Year 2017, the Authority had been paid $4.9 million in principal and $139 thousand in statutory prompt payment interest with respect to certain receivables.

The Authority is governed by a 15-person volunteer board that is appointed by the Governor and confirmed by the Senate. The Authority has 12 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 and are included on:

- The **Statement of Net Position** presents the financial position of the Authority as of June 30, 2017, 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** present 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** 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			
	2017	2016	Difference ($)	Change (%)
Current assets	$ 262,969	$ 131,700	$ 131,269	99.7%
Capital assets, net	13	29	(16)	-55.2%
Noncurrent assets	558,988	138,601	420,387	303.3%
Total assets	821,970	270,330	551,640	204.1%
Total deferred outflow of resources	409	577	(168)	-29.1%
Total assets and deferred outflows of resources	822,379	270,907	551,472	203.6%
Current liabilities	64,360	30,629	33,731	110.1%
Noncurrent liabilities	636,242	121,624	514,618	423.1%
Total liabilities	700,602	152,253	548,349	360.2%
Net investment in capital assets	13	29	(16)	-55.2%
Restricted	60,823	60,696	127	0.2%
Unrestricted	60,941	57,929	3,012	5.2%
Total net position	$ 121,777	$ 118,654	$ 3,123	2.6%

Current assets of $263.0 million increased $131.3 million or 99.7%, primarily due to the increase in cash and cash equivalents of $124.0 million due to the issuance of bonds related to the Illinois Clean Water Initiative, and an increase in our investment portfolio, of $14.8 million. These increases were offset by a decrease of $4.9 million due to the payment of receivables in the state receivable program, and the repayment of a loan by the City of Chicago which resulted in a decrease in the due from local government agencies of $2.3 million.

Capital assets, net of depreciation decreased $16 thousand or 55.2% due to the retirement of assets and a reduction in overall equipment purchases.

Non-current assets of $559.0 million increased $420.4 million or 303.3% due to the increase in bonds and notes receivable from the primary government.

Current liabilities of $64.4 million increased $33.7 million or 110.1% primarily due to the additional current portion of bonds and notes payable and interest payable due to the additional debt issued on behalf of the other State of Illinois component units.

Non-current liabilities increased $514.6 million or 423.1%, due to the additional debt payments on outstanding debt related to the Illinois Clean Water Initiative bonds.

Net position may serve, over a period of time, as a useful indicator of the Authority's financial position. As of June 30, 2017, total net position was $121.8 million, an increase of $3.1 million or 2.6% from the balance of $118.7 million in Fiscal Year 2016. Of this amount, $13 thousand represents the Authority's net investment in capital assets. Restricted net position of $60.8 million is reported separately to present legal constraints from debt covenants, grantors and/or enabling legislation. The $60.9 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, 2017.

The following table presents the changes in net position from Fiscal Year 2016 to 2017:

Changes in Net Position
(Amounts in Thousands)

	Business-type Activities			
	2017	**2016**	**Difference ($)**	**Change (%)**
Revenues:				
Closing fees	$ 4,047	$ 3,707	$ 340	9.2%
Annual fees	318	342	(24)	-7.0%
Administrative service fees	244	114	130	114.0%
Application fees	37	54	(17)	-31.5%
Miscellaneous fees	49	20	29	145.0%
Interest income - loans	14,235	4,804	9,431	196.3%
Transfer of funds and interest in program from the State of Illinois	452	426	26	6.1%
Bad debt recoveries and other	208	145	63	43.4%
Interest and investment income	2,047	900	1,147	127.4%
Total revenues	21,637	10,512	11,125	105.8%
Expenses:				
Employee related expenses	1,769	1,799	(30)	-1.7%
Professional services	1,185	1,937	(752)	-38.8%
Occupancy costs	175	245	(70)	-28.6%
General and administrative	343	405	(62)	-15.3%
Depreciation and amortization	18	48	(30)	-62.5%
Interest expense	12,144	4,002	8,142	203.4%
Bad debt expenses and other	-	691	(691)	-100.0%
Loss on extinguishment of debt	2,880	-	2,880	N/A
Total expenses	18,514	9,127	9,387	102.8%
Change in net position	3,123	1,385	1,738	125.5%
Net position - beginning	118,654	117,269	1,385	1.2%
Net position - ending	$ 121,777	$ 118,654	$ 3,123	2.6%

Operating revenues included closing fees from conduit bond issuances of $4.0 million, an increase of $340 thousand or 9.2%, due to the increase in number of conduit transaction closings in Fiscal Year 2017. Annual, administrative service, application and miscellaneous fees showed a collective increase of $118 thousand or 22.3%, due to an increase in Administrative service fees which were offset by the reduced number of application fees and the wind down of legacy loans with decreased balances, thus generating lower annual fees. The interest income on loans shows an increase from Fiscal Year 2016 of $9.4 million, or 196.3%, due to the increase on outstanding loans in regards to other State of Illinois component unit debt. Interest and investment income of $2.0 million, was higher than Fiscal Year 2016 by 127.4%, driven mostly by the increased investment portfolio generated by the additional bond proceeds.

All expenses totaled $18.5 million in Fiscal Year 2017, with an increase in interest expense and a loss on the extinguishment of debt.

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, 2017 was $13 thousand.

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

	2017	2016	Difference ($)	Change (%)
Furniture and equipment	$ 196	$ 194	$ 2	1.0%
Computers	131	131	-	0.0%
Software	288	288	-	0.0%
Total capital assets	615	613	2	0.3%
Less: accumulated depreciation	(602)	(584)	(18)	3.1%
Total capital assets, net	$ 13	$ 29	(16)	-55.2%

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 of 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 revenue bonds for 40 (does not include Beginning Farmer Bonds) separate conduit debt transactions in Fiscal Year 2017 with an aggregate principal amount of $4.14 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, 2017, the aggregate amount of intra-state debt outstanding is $593.1 million, an increase of $458.3 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 of 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 2017. As of June 30, 2017, the aggregate principal amount of revenue bonds with the State's moral obligation attached is $14.1 million, a reduction of $20.8 million or 59.7% due to the full redemption of the Illinois Medical District Commission Series 2006A Bonds and a partial redemption of the Illinois Medical District Commission Series 2006B Bonds.

In addition to its revenue bonds, the Authority also has outstanding loans with the U.S. Department of Agriculture for $249 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.

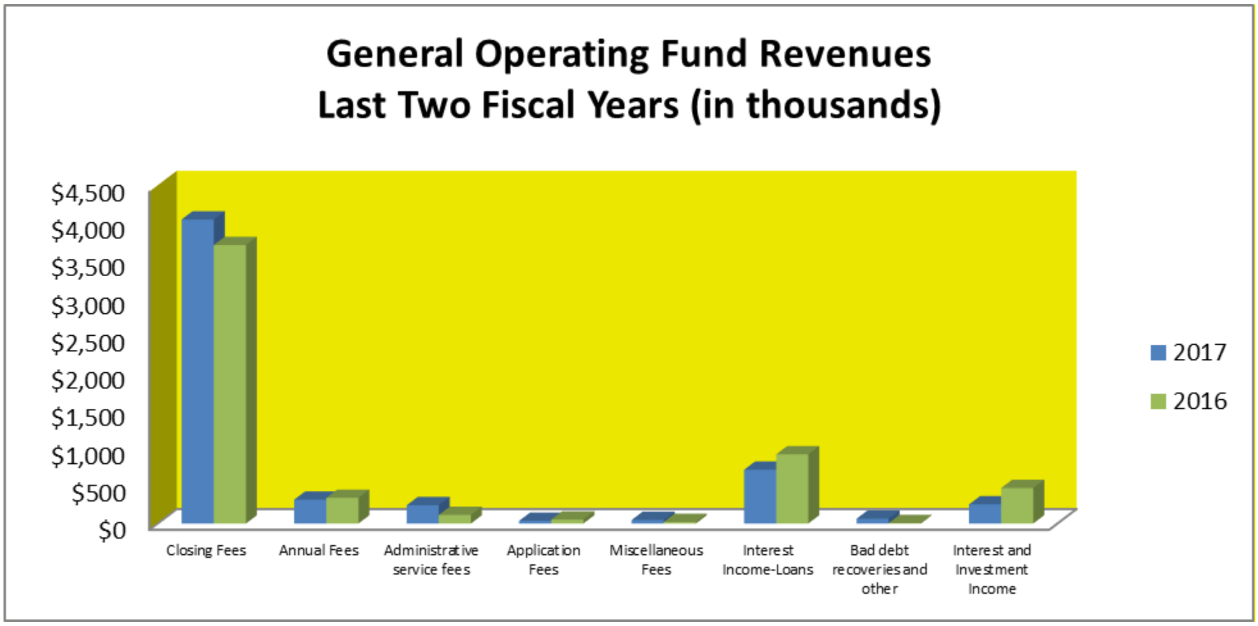
Financial Analysis of the Authority's Funds

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 2017, closing fees accounted for 70.6% of total revenues in the fund, but were higher than the prior year by $340 thousand, or 9.2%. The reason for the increase is the higher number of closings and/or bonds issued. Interest income on loans decreased by $206 thousand, or 22.3%, as a result of the lower amount of outstanding loans from the former Illinois Rural Bond Bank local governments. Administrative service fees total $244 thousand, which is an increase of $130 thousand or 114.0% from the prior fiscal year in this category. Interest and investment income is lower by $219 thousand or 46.2% in Fiscal Year 2017. This occurred since the Authority earned less prompt payment interest from the State Receivables program. Overall, revenues in the fund totaled $5.7 million, which was $88 thousand or 1.6% greater than Fiscal Year 2016. With spending held to just under $3.5 million, the General Operating Fund realized an increase in net position of $2.9 million. This increase includes transfer in from other funds of $601 thousand.

Revenues
(Amounts in Thousands)

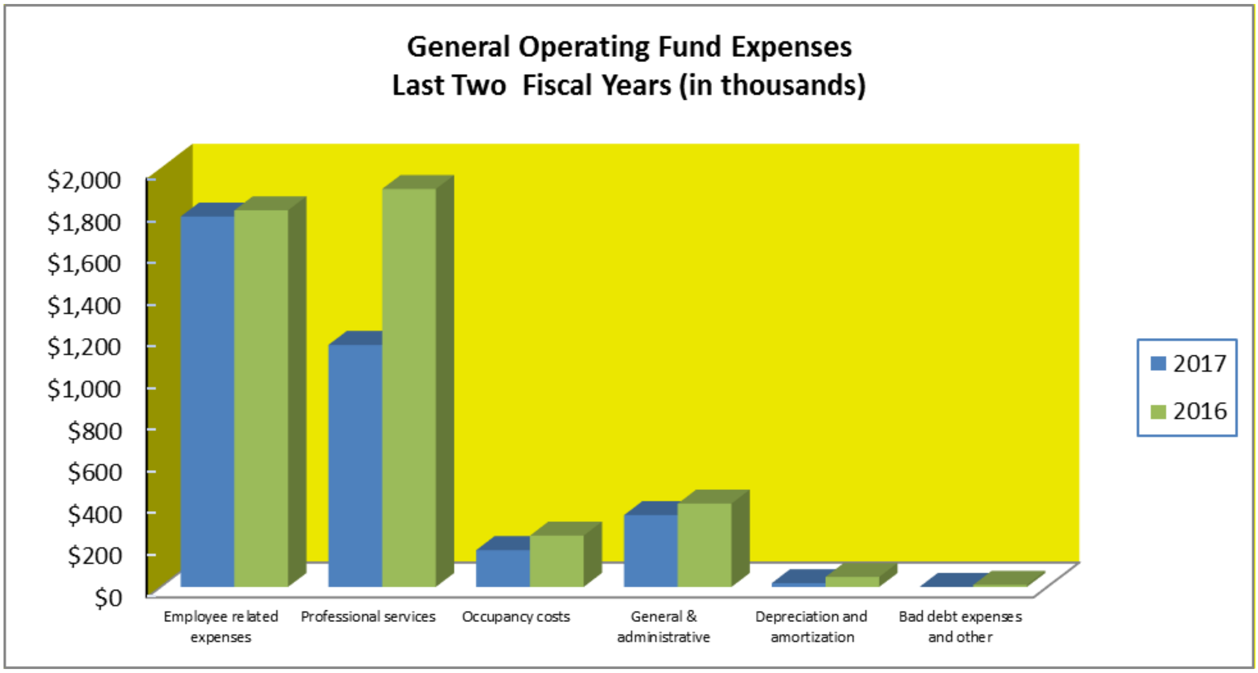
	2017	2016	2017 % of Total	Increase/ Decrease from 2016 ($)	Increase/ Decrease from 2016 (%)
Closing fees	$ 4,047	$ 3,707	70.6%	$ 340	9.2%
Annual fees	318	342	5.6%	(24)	-7.0%
Administrative service fees	244	114	4.3%	130	114.0%
Application fees	37	54	0.6%	(17)	-31.5%
Miscellaneous fees	48	21	0.8%	27	128.6%
Interest income - loans	716	922	12.5%	(206)	-22.3%
Bad debt recoveries and other	64	7	1.1%	57	814.3%
Interest and investment income	255	474	4.5%	(219)	-46.2%
Total revenues	$ 5,729	$ 5,641	100.0%	$ 88	1.6%



Employee related expenses decreased by $30 thousand or 1.7% from Fiscal Year 2016, due to a decrease in the number of employees. Professional services costs decreased by $745 thousand or 39.2% driven primarily by a decrease in the use of temporary staffing and information technology systems services. Occupancy costs fell by $69 thousand or 28.2%, since Fiscal Year 2016 occupancy costs included expenses for moving and leasehold improvements incurred in connection with the Authority relocation. General and administrative expenses were lower by $55 thousand or 13.8%, due to lower postage, printing costs and public official's management liability insurance premiums. Overall, expenses in the general operating fund were lower than Fiscal Year 2016 by $939 thousand or 21.3%.

Expenses
(Amounts in Thousands)

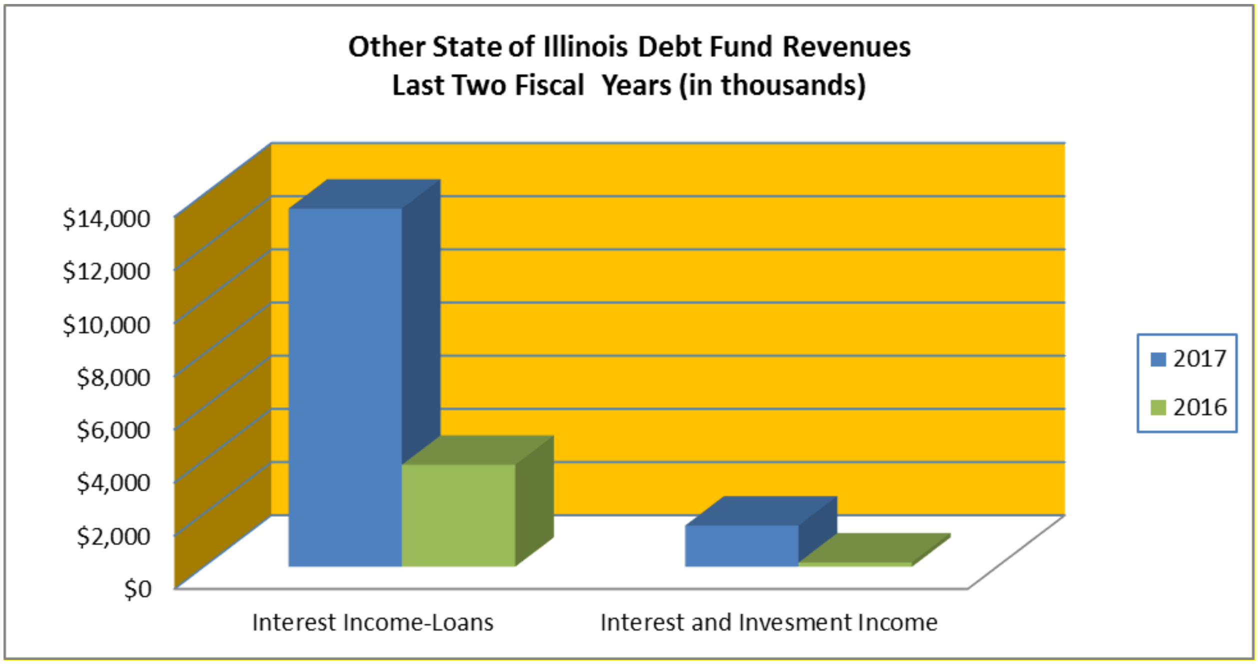
	2017	2016	2017 % of Total	Increase/ Decrease from 2016 ($)	Increase/ Decrease from 2016 (%)
Employee related expenses	$ 1,769	$ 1,799	51.1%	$ (30)	-1.7%
Professional services	1,156	1,901	33.4%	(745)	-39.2%
Occupancy costs	176	245	5.1%	(69)	-28.2%
General and administrative	343	398	9.9%	(55)	-13.8%
Depreciation and amortization	18	48	0.5%	(30)	-62.5%
Bad debt expenses and other	-	10	0.0%	(10)	-100.0%
Total expenses	$ 3,462	$ 4,401	100.0%	$ (939)	-21.3%



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 principal 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 $13.5 million versus $3.8 million from Fiscal Year 2016, an increase of $9.7 million or 251.2%. The reason for the increase is due to the increasing loan balances due to the additional loan made to the Illinois Environmental Protection Agency using bond proceeds. Interest and investment income was also higher in this fund by $1.4 million. Overall, revenues in the bond fund were $11.0 million or 275.6% higher than Fiscal Year 2016. The ending net position for this fund is zero.

Revenues
(Amounts in Thousands)

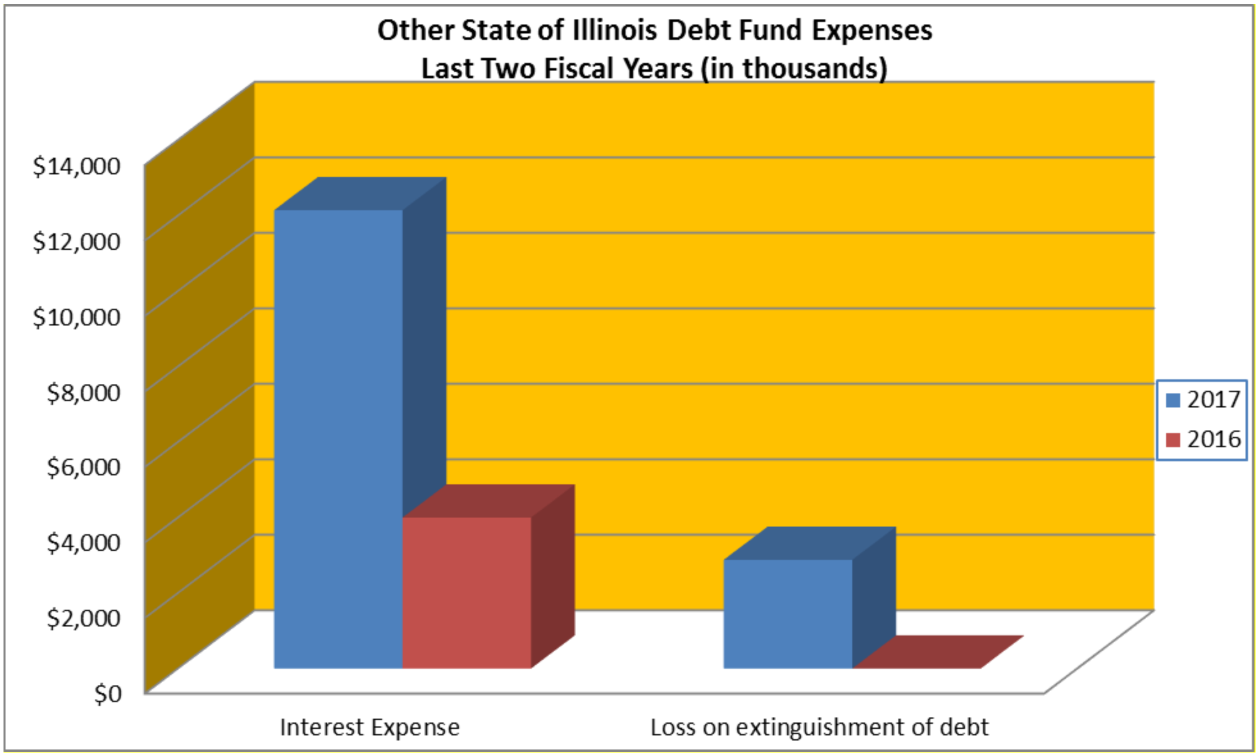
	2017	2016	2017 % of Total	Increase/ Decrease from 2016 ($)	Increase/ Decrease from 2016 (%)
Interest income loans	$ 13,470	$ 3,836	89.7%	$ 9,634	251.1%
Interest and investment income	1,551	163	10.3%	1,388	851.5%
Total expenses	$ 15,021	$ 3,999	100.00%	$ 11,022	275.6%



Interest expense in the fund totaled $12.1 million, which is an increase of $8.1 million from Fiscal Year 2016. The increase is attributable to the increase in debt, due to an issuance of $500 million of bonds on behalf of the Illinois Environmental Protection Agency. Additionally, the Authority incurred a loss on the early extinguishment of debt in Fiscal Year 2017, due to the redemption of a portion of the outstanding bonds issued on behalf of the Illinois Medical District Commission. Other financial activity of these State of Illinois agencies is included on the financial statements of the primary government.

Expenses
(Amounts in Thousands)

	2017	2016	2017 % of Total	Increase/ Decrease from 2016 ($)	Increase/ Decrease from 2016 (%)
Interest expense	$ 12,141	$ 3,999	80.8%	$ 8,142	203.6%
Loss on extinguishment of debt	2,880	-	19.2%	2,880	-
Total revenues	$ 15,021	$ 3,999	100.0%	$ 11,022	275.6%



Economic Factors, Decisions and Conditions

All Funds - 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. Continuing a trend from the previous year the Authority saw an increase in the number of bond transactions closed in Fiscal Year 2017 which resulted in an increase in closing fee revenues. The Authority closed Fiscal Year 2017 (ended June 30, 2017) with having issued more than $4.14 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 2018. 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 2017 net position of $121.8 million.

Discussions continue in the United States Congress regarding federal tax reform, including the potential elimination of private activity bonds and advance refunding bonds.

Nonmajor Funds - As of June 30, 2017, the Authority's nonmajor funds in aggregate reported unrestricted net position of $4.3 million and restricted net position of $60.8 million, for a total net position of $65.1 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 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/2017 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, 2017

	General Operating Fund	Other State of Illinois Debt Fund	Nonmajor Funds	Total
ASSETS				
Current assets:				
Current unrestricted assets:				
Cash and cash equivalents	$ 16,111,419	$ -	$ 51,287	$ 16,162,706
Investments	20,311,385	-	2,787,010	23,098,395
Accounts receivable, net	133,064	-	-	133,064
Loans receivables, net	136,094	-	-	136,094
Accrued interest receivable	507,862	-	9,809	517,671
Bonds and notes receivable	1,604,100	-	-	1,604,100
Due from other funds	169	-	-	169
Prepaid expenses	39,746	-	-	39,746
Total current unrestricted assets	38,843,839	-	2,848,106	41,691,945
Current restricted assets:				
Cash and cash equivalents	-	197,034,949	4,227,247	201,262,196
Investments	-	-	10,996,502	10,996,502
Securities lending collateral equity with the State Treasurer	-	-	5,821,742	5,821,742
Accrued interest receivable	-	11,612	46,487	58,099
Loans receivables, net	-	-	3,139,141	3,139,141
Total current restricted assets	-	197,046,561	24,231,119	221,277,680
Total current assets	38,843,839	197,046,561	27,079,225	262,969,625
Noncurrent assets:				
Noncurrent unrestricted assets:				
Investments	5,413,257	-	1,475,769	6,889,026
Loans receivables, net	2,261,333	-	-	2,261,333
Bonds and notes receivable	10,465,037	-	-	10,465,037
Capital assets, net of accumulated depreciation	12,655	-	-	12,655
Total noncurrent unrestricted assets	18,152,282	-	1,475,769	19,628,051
Noncurrent restricted assets:				
Cash and cash equivalents	-	-	18,073,289	18,073,289
Investments	-	3,345,504	4,785,863	8,131,367
Accrued interest receivable	-	-	5,822	5,822
Loans receivables, net	-	-	19,800,716	19,800,716
Bonds and notes receivable from primary government	-	483,614,041	-	483,614,041
Bonds and notes receivable from State component units	-	9,747,221	-	9,747,221
Total noncurrent restricted assets	-	496,706,766	42,665,690	539,372,456
Total noncurrent assets	18,152,282	496,706,766	44,141,459	559,000,507
Total assets	56,996,121	693,753,327	71,220,684	821,970,132
DEFERRED OUTFLOWS OF RESOURCES				
Net loss on debt refundings	-	408,860	-	408,860
Total deferred outflows of resources	-	408,860	-	408,860
Total assets and deferred outflows of resources	56,996,121	694,162,187	71,220,684	822,378,992

(Continued)

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

Statement of Net Position (Continued)
June 30, 2017

	General Operating Fund	Other State of Illinois Debt Fund	Nonmajor Funds	Total
LIABILITIES				
Current liabilities:				
Payable from unrestricted current assets:				
Accounts payable	$ 54,112	$ -	$ 541	$ 54,653
Accrued liabilities	94,940	-	-	94,940
Due to employees	95,721	-	-	95,721
Due to primary government	50,001	-	-	50,001
Unearned revenue, net of accumulated amortization	70,000	-	-	70,000
Total current liabilities payable from unrestricted current assets	364,774	-	541	365,315
Payable from restricted current assets:				
Accounts payable	-	-	2,146	2,146
Due to other funds	-	-	169	169
Obligation under securities lending of the State Treasurer	-	-	5,821,742	5,821,742
Accrued interest payable	-	13,700,107	1,651	13,701,758
Bonds and notes payable, primary government	-	43,230,000	-	43,230,000
Bonds and notes payable, State component units	-	1,148,809	-	1,148,809
Current portion of long-term debt	-	-	61,190	61,190
Other liabilities	-	29,192	-	29,192
Total current liabilities payable from restricted current assets	-	58,108,108	5,886,898	63,995,006
Total current liabilities	364,774	58,108,108	5,887,439	64,360,321
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	-	534,090,000	-	534,090,000
Bonds and notes payable, State component units	-	14,598,679	-	14,598,679
Noncurrent portion of long-term debt	-	-	187,322	187,322
Unamortized bond premium	-	87,365,400	-	87,365,400
Total noncurrent liabilities payable from restricted noncurrent assets	-	636,054,079	187,322	636,241,401
Total noncurrent liabilities	585	636,054,079	187,322	636,241,986
Total liabilities	365,359	694,162,187	6,074,761	700,602,307
NET POSITION				
Net investment in capital assets	12,655	-	-	12,655
Restricted for:				
Industrial revenue debt and agricultural guarantees	-	-	11,481,604	11,481,604
Public safety loans	-	-	27,289,301	27,289,301
Agricultural and rural development loans	-	-	19,777,513	19,777,513
Renewable energy development	-	-	2,261,518	2,261,518
Low income community investments	-	-	12,653	12,653
Unrestricted	56,618,107	-	4,323,336	60,941,443
Total net position	$ 56,630,762	$ -	$ 65,145,925	$ 121,776,687

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, 2017

	General Operating Fund	Other State of Illinois Debt Fund	Nonmajor Funds	Total
Operating revenues:				
Closing fees	$ 4,046,736	$ -	$ -	$ 4,046,736
Annual fees	318,082	-	-	318,082
Administrative service fees	243,500	-	-	243,500
Application fees	36,900	-	-	36,900
Miscellaneous fees	37,173	-	106	37,279
Interest income - loans	716,076	13,470,175	48,258	14,234,509
Other revenue	11,103	-	1,107	12,210
Total operating revenue	5,409,570	13,470,175	49,471	18,929,216
Operating expenses:				
Employee related expenses	1,769,136	-	-	1,769,136
Professional services	1,155,889	-	29,208	1,185,097
Occupancy costs	175,705	-	-	175,705
General and administrative	342,806	-	36	342,842
Interest expense	-	12,140,852	2,939	12,143,791
Depreciation and amortization	17,970	-	-	17,970
Total operating expenses	3,461,506	12,140,852	32,183	15,634,541
Operating income	1,948,064	1,329,323	17,288	3,294,675
Nonoperating revenue (expenses):				
Transfers of funds and interest in program from the State of Illinois	-	-	452,379	452,379
Interest and investment income	254,659	1,550,800	241,661	2,047,120
Other	64,221	-	143,894	208,115
Total nonoperating revenues (expenses)	318,880	1,550,800	837,934	2,707,614
Net income before transfers and other financing sources (uses)	2,266,944	2,880,123	855,222	6,002,289
Transfers and other financing sources (uses):				
Loss on extinguishment of debt	-	(2,880,123)	-	(2,880,123)
Transfers in from other funds	600,509	-	417,678	1,018,187
Transfers out to other funds	-	-	(1,018,187)	(1,018,187)
Total transfers and other financing sources (uses)	600,509	(2,880,123)	(600,509)	(2,880,123)
Change in net position	2,867,453	-	254,713	3,122,166
Net position - beginning of year	53,763,309	-	64,891,212	118,654,521
Net position - end of year	$ 56,630,762	$ -	$ 65,145,925	$ 121,776,687

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, 2017

	General Operating Fund	Other State of Illinois Debt Fund	Nonmajor Funds	Total
Cash flows from operating activities:				
Cash received for fees and other	$ 4,827,207	$ -	$ 1,213	$ 4,828,420
Cash payments for employee services	(1,791,373)	-	-	(1,791,373)
Cash payments to suppliers for goods and services	(1,964,487)	-	(38,910)	(2,003,397)
Net cash provided by (used in) operating activities	1,071,347	-	(37,697)	1,033,650
Cash flows from noncapital financing activities:				
Bonds and notes principal payments	-	(41,755,719)	(60,584)	(41,816,303)
Proceeds from issuance of bonds	-	591,697,814	-	591,697,814
Interest payments	-	-	(3,091)	591,694,723
Permanent capital transfer from the State	-	-	452,379	(16,011,143)
Due from other funds	25,281	-	(25,281)	-
Due to other funds	600,509	-	-	600,509
Transfers from other funds	-	-	417,678	417,678
Transfers to other funds	-	-	(1,018,187)	(1,018,187)
Net cash provided by (used in) noncapital financing activities	625,790	533,478,573	(237,086)	533,867,277
Cash flows from capital and related financing activities:				
Purchase of capital assets	(1,740)	-	-	(1,740)
Net cash used in capital and related financing activities	(1,740)	-	-	(1,740)
Cash flows from investing activities:				
Purchase of investments	(77,361,023)	(1,447,042,973)	(17,441,811)	(1,541,845,807)
Maturity and sales of investments	69,758,822	1,447,067,167	11,326,234	1,528,152,223
Interest and dividends on investments	421,689	1,530,795	345,231	2,297,715
Cash received for interest on loans	758,402	13,331,863	46,036	14,136,301
Cash received on loan receivables and guarantees	12,142,005	21,608,404	4,607,171	38,357,580
Cash payments on loan receivables and guarantees	(992,161)	(448,806,319)	(2,617,678)	(452,416,158)
Net cash provided by (used in) investing activities	4,727,734	(412,311,063)	(3,734,817)	(411,318,146)
Net increase (decrease) in cash and cash equivalents	6,423,131	121,167,510	(4,009,600)	123,581,041
Cash and cash equivalents - beginning of year	9,688,288	75,867,439	26,361,423	111,917,150
Cash and cash equivalents - end of year	$ 16,111,419	$ 197,034,949	$ 22,351,823	$ 235,498,191

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, 2017

	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	$ 1,948,064	$ 1,329,323	$ 17,288	$ 3,294,675
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:				
Depreciation and amortization	17,970	-	-	17,970
Interest on loans	(716,076)	(13,470,175)	(48,258)	(14,234,509)
Interest expense	-	12,140,852	2,939	12,143,791
Changes in assets and liabilities:				
Accounts receivable	73,090	-	-	73,090
Unearned revenue	61,930	-	-	61,930
Prepaid expenses	(2,415)	-	-	(2,415)
Accounts payable and accrued liabilities	(253,260)	-	(9,666)	(262,926)
Due to employees	(22,956)	-	-	(22,956)
Due from primary government	(35,000)	-	-	(35,000)
Due to primary government	-	-	-	-
Net cash provided by (used in) operating activities	$ 1,071,347	$ -	$ (37,697)	$ 1,033,650

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, 2017

	Metro East Police District Commission Fund
Assets	
Current assets:	
Cash and cash equivalents	$ 4,762
Liabilities	
Current liabilities:	
Other liabilities	$ 4,762

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, 2017

	Metro East Police District Commission Fund
Assets	
Cash and cash equivalents	
July 1, 2016	$ 18,959
Additions	9,604
Deductions	(23,801)
Total Cash and cash equivalents	
June 30, 2017	4,762
Total Assets	
July 1, 2016	18,959
Additions	9,604
Deductions	(23,801)
Total Assets	
June 30, 2017	$ 4,762
Liabilities	
Other Liabilities	
July 1, 2016	$ 18,959
Additions	9,604
Deductions	(23,801)
Total Other Liabilities	
June 30, 2017	4,762
Total Liabilities	
July 1, 2016	18,959
Additions	9,604
Deductions	(23,801)
Total Liabilities	
June 30, 2017	$ 4,762

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 2017, the Authority adopted the following Governmental Accounting Standards Board ("GASB") standards:

- 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 paragraphs 18, 19, 23-26, and 40 of this Statement in its year ending June 30, 2017, the other paragraphs of this Statement were adopted in the year ending June 30, 2016.

- 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*.

Note 1. Summary of Significant Accounting Policies (Continued)

New Accounting Standards (Continued)

During the Fiscal Year 2017, 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, 2017:

- 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.

- 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.

- 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.

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

- 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.

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.

- GASB Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations ("ARO's"). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

- GASB Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

- GASB Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits ("OPEB"). The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.

Note 1. Summary of Significant Accounting Policies (Continued)

New Accounting Standards (Continued)

- GASB Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources-resources other than the proceeds of refunding debt-are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.

- GASB Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of government's financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

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.

Note 1. Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

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.

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, 2017, the amount held by the Authority on behalf of the Metro East Police District Commission was $4,762.

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.

The IFADF did not apply for an allocation in Fiscal Year 2017. As of June 30, 2017, cash and restricted net position of the IFADF, which is presented as part of the nonmajor funds, is $12,822.

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.

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, 2017, consisted of the following:

Balance June 30, 2016	Earned	Paid	Balance June 30, 2017	Due Within One Year
$ 117,956	$ 94,302	$ 116,537	$ 95,721	$ 95,721

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 2017.

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, 2017, the Authority had investments in capital assets of $12,655.

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, 2017, the Authority had restricted net position of $60,822,589 of which $56,850,016 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, 2017, the Authority had unrestricted net position of $60,941,443.

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, 2017, the aggregate amount of conduit debt outstanding is approximately $23.72 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. 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, 2017, are classified in the accompanying basic financial statements as follows:

Cash and cash equivalents - unrestricted	$ 16,162,706
Cash and cash equivalents - fiduciary fund	4,762
Cash and cash equivalents - restricted current assets	201,262,196
Cash and cash equivalents - restricted noncurrent assets	18,073,289
Investments - unrestricted current assets	23,098,395
Investments - unrestricted noncurrent assets	6,889,026
Investments - restricted current assets	10,996,502
Investments - restricted noncurrent assets	8,131,367
Total	$ 284,618,243

Cash and investments as of June 30, 2017, consist of the following:

Deposits with financial institutions	$ 213,304
Deposits with State of Illinois Treasurer	18,295,716
Investments	266,109,223
Total	$ 284,618,243

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 and if the principal office of the credit union is located within the State of Illinois;
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, subject to certain restrictions.

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, subject to certain restrictions.

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>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 FDIC 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 FDIC 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, 2017, the weighted average maturities of the Authority's investments were:

Investment Type	June 30, 2017	Weighted Average Maturity (in years)
U.S. Treasury notes	$ 10,958,367	0.92
U.S. Government agency securities	33,883,228	0.54
Money Market mutual funds	212,936,526	N/A
Commercial paper	2,847,888	0.07
Corporate debt securities	1,095,900	0.14
Municipal debt	329,907	0.09
Repurchase Agreements	4,057,407	0.01
Total	$ 266,109,223	

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, 2017	Ratings	
		S & P	Moody's
U.S. Treasury notes	$ 10,958,367	AA+	Aaa
U.S. Government agency securities	33,883,228	AA+	Aaa
Money market mutual funds	212,936,526	AAA	Aaa
Corporate debt securities	845,892	A+	A1
Corporate debt securities	250,008	A+	A3
Commercial paper	1,999,077	A-1	P-1
Commercial paper	848,811	A-1+	P-1
Municipal debt	329,907	AA	Aa1
Repurchase agreements	4,057,407	AAA	Aaa
Total	$ 266,109,223		

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 the 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, 2017, investments in any one issuer (other than U.S. Treasury securities, 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	$ 22,251,444
Goldman Sachs Financial Square Government Fund	Money Market Mutual Funds	212,936,526

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, 2017, $2,574 of the Authority's bank balance of $277,180 was uninsured and uncollateralized. In addition, all of the Authority's investments were held by third parties and in the name of the Authority.

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, 2017, the Authority had invested $4,057,407 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, 2017.

Assets Investments	Total	Level 1	Level 2	Level 3
U.S. Treasury notes	$ 10,958,367	$ 10,958,367	$ -	$ -
U.S. Government agency securities	33,883,228	-	33,883,228	-
Municipal debt	329,907	-	329,907	-
Corporate debt securities	3,943,788	-	3,943,788	-
Money market mutual funds	212,936,526	212,936,526	-	-
Total Investments	$ 262,051,816	$ 223,894,893	$ 38,156,923	$ -

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 2017, 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 during fiscal year 2017 on the amount of the loans of available, eligible securities. 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. There were no losses during fiscal year 2017 resulting from a default of the borrowers or Deutsche Bank AG.

During fiscal year 2017, 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.

The securities lending collateral received that were invested in repurchase agreements allocated to the Illinois Agricultural Loan Guarantee and Illinois Farmer Agribusiness Loan Guarantee Fund were $3,262,986 and $2,558,756, respectively, as of June 30, 2017.

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 City of Chicago made the final payment on February 1, 2017 in the amount of $2,452,163. The total loan outstanding as of June 30, 2017 was zero.

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, 2017, were $1,036,082 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, 2017 were $1,672,060 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, 2017, were $163,518 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, 2017 two (2) loans were issued totaling $700,000. Total loans outstanding as of June 30, 2017, were $20,005,351 within the Locally Held Fire Truck Revolving Loan Fund. As of June 30, 2017, 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. During the year ended June 30, 2017, fifteen (15) loans were issued totaling $1,500,000. Total loans outstanding as of June 30, 2017, were $1,672,960 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, 2017, were $627,638 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, 2017, were $12,069,137 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, 2017, were $493,361,262 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, 2017, were $1,107,839 within the nonmajor funds. See Note 18.

Allowance for Doubtful Accounts

The allowance for doubtful accounts for all loans and notes receivable on June 30, 2017 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, 2017, consisted of the following:

	Fund	All Receivables June 30, 2017	Allowance for Doubtful Accounts	Net Receivable June 30, 2017
Accounts Receivable	General Operating	$ 158,102	$ (25,038)	$ 133,064
DACA Loan Program	General Operating	1,672,060	-	1,672,060
Direct Lending Participation Program	General Operating	1,036,082	(938,353)	97,729
The Rural Development Revolving Loan Program	Nonmajor	163,518	(9,811)	153,707
Fire Truck Revolving Loan Program	Nonmajor	20,005,351	-	20,005,351
Ambulance Revolving Loan Program	Nonmajor	1,672,960	-	1,672,960
Local Government Financing Assistance Program	General Operating	627,638	-	627,638
Local Government Borrowing Program	General Operating	12,069,137	-	12,069,137
Loans with the Primary Government and Component Units of the State of Illinois	Other State of Illinois Debt	493,361,262	-	493,361,262
Renewable Energy Development Program	Nonmajor	1,107,839	-	1,107,839
		$ 531,873,949	$ (973,202)	$ 530,900,747

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, 2017, 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	(86,667)	-	(86,667)
Gross guarantee receivables	223,224	170,902	394,126
Allowance for doubtful accounts	(223,224)	(170,902)	(394,126)
Net receivables - end of year	$ -	$ -	$ -

The allowance for doubtful accounts for all guarantee receivables at June 30, 2017, 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.

The Authority received the write-off authorization from the Office of the Attorney General on August 31, 2017. See Note 18.

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, 2017:

	Due from		
Funds	Major Funds	Nonmajor Funds	Description/Purpose
General Operating Fund	$ -	$ 169	Due from the Illinois Finance Authority Development Not-for-Profit Fund for the payment of legal fees

	Due to		
Funds	Major Funds	Nonmajor Funds	Description/Purpose
Nonmajor Funds	$ 169	$ -	Due to the General Operating Fund for the payment of administrative costs.

Note 9. Interfund Transfers and Balances (Continued)

Transfers from/to other funds - Interfund transfers for the year ended June 30, 2017, were as follows:

	Transfers from		
Funds	Major Funds	Nonmajor Funds	Description/Purpose
General Operating Fund	$ 600,509	$ -	Transfer from Credit Enhancement Fund since funds are no longer needed for the program
Illinois Farmer Agribusiness Loan Guarantee	417,678	-	Transfer from the Industrial Project Insurance Fund to make payment for a guarantee payout
Total	$ 1,018,187	$ -	

	Transfers to		
Funds	Major Funds	Nonmajor Funds	Description/Purpose
Credit Enhancement Fund	$ -	$ 600,509	Transfer to the General Operating Fund for excess program funds
Industrial Project Insurance Fund	-	417,678	Transer to the Illinois Farmer Agribusiness Loan Guarantee Fund to make payment for a guarantee payout
Total	$ -	$ 1,018,187	

Note 10. Capital Assets

Capital assets activity for the year ended June 30, 2017, was as follows:

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
Capital assets being depreciated:				
Furniture and equipment	$ 193,906	$ 1,740	$ -	$ 195,646
Computers	131,228	-	-	131,228
Software	287,799	-	-	287,799
Total capital assets being depreciated	612,933	1,740	-	614,673
Less: Accumulated depreciation				
Furniture and equipment	188,665	2,197	-	190,862
Computers	126,599	1,434	-	128,033
Software	268,784	14,339	-	283,123
Total accumulated depreciation	584,048	17,970	-	602,018
Capital assets, net of depreciation	$ 28,885	$ (16,230)	$ -	$ 12,655

The Authority's records were reconciled to the records maintained by the Comptroller of the State of Illinois as of June 30, 2017.

Note 11. Long-Term Obligations

Revenue Bonds Payable

The following schedule details the changes of all revenue bonds payable as of June 30, 2017:

Revenue bonds payable:	Balance June 30, 2016	Additions	(Retirements)	Balance June 30, 2017	Amounts Due Within One Year
Northern Illinois University Foundation	$ 2,263,207	$ -	$ (565,719)	$ 1,697,488	$ -
Illinois Environmental Protection Agency Clean Water Series 2013	97,675,000	-	(20,355,000)	77,320,000	19,545,000
Illinois Environmental Protection Agency Clean Water Series 2016	-	500,000,000	-	500,000,000	23,685,000
Illinois Medical District Commission					
Series 2006A	6,095,000	-	(6,095,000)	-	-
Series 2006B	28,790,000	-	(14,740,000)	14,050,000	-
	$ 134,823,207	$ 500,000,000	$ (41,755,719)	$ 593,067,488	$ 43,230,000

The future debt service requirements for revenue bonds as of June 30, 2017, including interest payments are as follows:

Fiscal Year Ending June 30,	Total Outstanding Revenue Bonds Principal	Interest	Total
2018	$ 44,378,809	$ 27,125,440	$ 71,504,249
2019	47,015,295	25,056,409	72,071,704
2020	45,606,082	22,950,765	68,556,847
2021	43,107,302	20,700,067	63,807,369
2022	39,075,000	18,620,237	57,695,237
2023-2027	172,810,000	67,004,547	239,814,547
2028-2032	135,695,000	29,910,035	165,605,035
2033-2037	65,380,000	5,543,400	70,923,400
	$ 593,067,488	$ 216,910,900	$ 809,978,388

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 2036. Principal and interest payments on the bonds are expected to require approximately 100% of these loan revenues. All bonds outstanding at June 30, 2017, 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 2016 (Clean Water Initiative) – The original issue of $500,000,000 dated September 12, 2016, provides for serial retirement of principal beginning July 1, 2017, 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, 2036.

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. The Illinois Medical District Commission redeemed all of its outstanding Series 2006A bonds on May 15, 2017.

Note 11. Long-Term Obligations (Continued)

Revenue Bonds Payable (Continued)

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. The Illinois Medical District Commission optionally redeemed a portion of the outstanding Series 2006B bonds on May 15, 2017.

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.

Revolving Loans

<u>Locally Held Fire Truck Revolving Loan Fund</u> - 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.

<u>Locally Held Ambulance Revolving Loan Fund</u> - 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 $452,379 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, 2016	Repayments	Balance, June 30, 2017	Due Within One Year
Rural Development Revolving Loan	$ 309,096	$ 60,584	$ 248,512	$ 61,190

Note 11. Long-Term Obligations (Continued)

Revolving Loans (Continued)

Principal and interest payments for the loans due at June 30, 2017, are as follows:

Year Ending June 30,	Principal	Interest	Total
2018	$ 61,190	$ 4,873	$ 66,063
2019	61,802	4,285	66,087
2020	62,420	3,691	66,111
2021	63,100	3,091	66,191
	$ 248,512	$ 15,940	$ 264,452

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 2017, 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, 2017, is $4,954,813.

Previously defeased bonds in escrow as of June 30, 2017, are as follows:

	Amount Defeased as of June 30, 2014	Amount Outstanding in Escrow
Illinois Rural Bond Bank:		
2008 A Bonds	$ 1,560,000	$ 1,390,000
2009 A Bonds	3,845,000	3,300,000
	$ 5,405,000	$ 4,690,000

Note 13. Lease Commitments

Operating Leases

Total rent expense for all three Illinois Finance Authority locations for the year ended June 30, 2017 was $107,015, 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, 2017, was $92,898.

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 $11,162, 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 $16,459, for the year ended June 30, 2017.

The future minimum lease commitments as of June 30, 2017, are as follows:

Fiscal Year Ending June 30	Amount
2018	$ 22,280
2019	20,105
2020	5,773
	$ 48,158

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. In Fiscal Year 2017 these bonds have been paid, thus the Debt Service Reserve was no longer required. These funds were transferred to the General Fund in the amount of $600,509.

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 $1,791,198 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 $153,707 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, 2017. 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, 2017		
	Illinois Agricultural Loan Guarantee Fund	Illinois Farmer Agribusiness Loan Guarantee Fund	Total
Cash Deposits	$ 10,129,630	$ 7,943,659	$ 18,073,289
<u>Maximum Outstanding Guarantees</u>:			
State Guarantee Program for Restructuring Agricultural Debt	5,966,449	-	5,966,449
Specialized Livestock Loan Guarantee Program	-	1,251,934	1,251,934
Young Farmer Loan Guarantee Program	-	578,360	578,360
Farmer and Agri-Business Loan Guarantee Program	-	532,147	532,147
Farm Purchase Program	-	866,646	866,646
Total	$ 5,966,449	$ 3,229,087	$ 9,195,536

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 $11,457,945 at June 30, 2017.

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 2017 are:

Year	Maximum Contribution	Age 50 Catch Up
2017	$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 2017 were $118,606 and $138,756, 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.

Due to primary government ("OAG") - 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 $50,001 for audit related fees.

Due to primary government ("CMS") – 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, 2017. The Authority is indebted with CMS in the amount of $10,697. This amount is a component of the amount reported as accounts payable in the Authority's General Operating Fund.

Note 18. Subsequent Events

On July 6, 2017, the Illinois General Assembly voted to override three budget bills that were previously vetoed by the Governor, thus ending the State budget impasse (See Public Act 100-0021, Public Act 100-022 and Public Act 100-0023) and making possible the issuance of long-term bonds of behalf of State of Illinois component units (See below). The Authority retains its ability to take public action 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.

On July 11, 2017, the Authority received $1,109,720 as final payment of principal and interest from AgriWind LLC and AgriWind Project L.L.C (collectively, “AgriWind”) on two outstanding participation loans originated by the Authority on July 31, 2007. The Authority originated the two participation loans in the aggregate face loan amount of $2,000,000 for the benefit of AgriWind from its Renewable Energy Development Loan Fund, funded by a capitalization grant from Illinois Clean Energy Community Foundation.

As of August 31, 2017, the Authority obtained the approval of the Attorney General to write-off its remaining Venture Capital Investments of $2,971,385, for which a 100% allowance for a decline in the market value was previously recognized.

As of August 31, 2017, the Authority similarly obtained the approval of the Attorney General to write-off certain loan and guarantee receivables from non-conduit debt. Specifically, $698,188 of General Operating Fund uncollectible balances and $394,126 of cumulative Illinois Agricultural Loan Guarantee Fund and Illinois Farmer and Agribusiness Loan Guarantee Fund uncollectible balances received authorization for write-off, for which 100% allowance for a decline in the market value was previously recognized.

As of October 6, 2017, the Authority similarly obtained the approval of the Attorney General to write-off certain loan from non-conduit debt. Specifically, $235,000 of General Operating Fund uncollectible balances.

On September 5, 2017, the Acting Secretary of U.S. Department of Homeland Security released a *Memorandum on Rescission of Deferred Action For Childhood Arrivals (“DACA”)* outlining that U.S. Department of Homeland Security personnel shall take all appropriate actions to execute a wind-down of the DACA program, notably, U.S. Department of Homeland Security is no longer accepting renewal requests for Deferred Action for Childhood Arrivals. The Authority is currently evaluating the potential impact of this federal action on the Authority’s DACA program. As of September 5, 2017, the Authority’s Deferred Action for Childhood Arrivals Loan Program had loans outstanding to twelve medical and dental students in Illinois with DACA status in the amount of $1,672,060.

Note 18. Subsequent Events (Continued)

On September 12, 2017, the Authority issued $560,025,000 in Illinois Finance Authority State of Illinois Clean Water Initiative Revolving Fund Revenue Bonds, Series 2017 ("Illinois Clean Water Initiative Bonds, Series 2017"; see www.emma.msrb.org for the Official Statement of the Illinois Clean Water Initiative Bonds, Series 2017). 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, 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 2017, benefit the Illinois Environmental Protection Agency. Accordingly, in the audit period that will end June 30, 2018, the Authority anticipates increasing its balance sheet by approximately $560,025,000 consistent with the GASB Interpretation No. 2 and the amount of the outstanding Illinois Clean Water Initiative Bonds, Series 2017.

On October 18, 2017, the Illinois Environmental Protection Agency reported to the Authority that it had met the 3-Year Drawdown Target as required by the Tax Increase Prevention and Reconciliation Act of 2005 ("TIPRA") on the outstanding Illinois Finance Authority State of Illinois Clean Water Initiative Revolving Fund Revenue Bonds (Illinois Environmental Protection Agency State Revolving Fund), Series 2016. TIPRA imposes upon pooled finance bond issues a 95% drawdown requirement of bond proceeds within three years of issuance.

On November 2, 2017, the United States House leadership unveiled its federal tax reform legislation, HR 1, the Tax Cuts and Jobs Act ("HR 1"). With respect to the mission and revenues of the Authority, if enacted into federal law, HR 1 as passed by the House terminates, on a going forward basis as of January 1, 2018, the federal tax exemption for interest on any newly issued private activity bonds ("PABs"). (See House-passed HR 1, Subtitle G, Sec. 3601.)

On November 9, 2017, the Authority Board was advised of the impact of the House version of HR 1 with respect to PABs, including the potential negative impact on Authority revenues; the Board also was informed that the Authority has sufficient reserves held independently of the State budget that would allow the Authority to continue operations for a period of time.

On November 16, 2017, the United States House passed HR 1, which included the elimination of the current tax exemption for both PABs and advance refundings.

Note 18. Subsequent Events (Continued)

On December 2, 2017, the United States Senate passed its version of HR 1 that retained current law status for PABs but, like the House version, eliminated advance refundings.

On December 4, 2017, the United States House voted to take federal tax reform legislation to conference with the United States Senate to resolve differences between the House and Senate versions.

On December 6, 2017, the United States Senate voted to take federal tax reform legislation to conference with the United States House to resolve differences between the Senate and House versions.

As of December 6, 2017, PABs constitute approximately $24 billion of the Authority's $25 billion of outstanding conduit bonds or approximately 96% of the Authority's outstanding conduit bonds. Under both the House and Senate versions of HR 1, the tax exemption for interest on all PABs outstanding on January 1, 2018 would not be impacted. However, in both versions of the bill, if there is a refunding, refinancing or re-issuance for tax purposes in connection with the Authority's outstanding PABs, the interest on the refunded, refinanced or re-issued debt would be subject to federal income tax. Both versions of HR 1 eliminate advance refunding bonds, a tool that allows PABs (as well other bonds of State and local governments) to save interest costs by refinancing bond debt. See, HR 1, Subtitle G, Sec. 3602. Advance refunding bonds constitute a significant portion of the Authority's PABs related issuance activity.

Whether a reconciled version of HR 1 will be passed by both Chambers and signed by the President before the current effective date of January 1, 2018 is unknown at this time.

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, 2017

	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	626,442	916,299	743,274	-
Investments	6,430,487	2,117,825	1,819,241	-
Receivables from pending investment sales	-	-	-	-
Securities lending collateral equity with the State Treasurer	-	-	-	-
Accrued interest receivable	25,055	14,492	481	-
Loans receivables, net	-	1,743,938	264,320	-
Total current restricted assets	7,081,984	4,792,554	2,827,316	-
Total current assets	7,081,984	4,792,554	2,827,316	-
Noncurrent assets:				
Noncurrent unrestricted assets:				
Investments	-	-	-	-
Total noncurrent unrestricted assets	-	-	-	-
Noncurrent restricted assets:				
Cash and cash equivalents	-	-	-	-
Investments	4,401,016	-	-	-
Accrued interest receivable	-	-	-	-
Loans receivables, net	-	18,261,413	1,408,640	-
Total noncurrent restricted assets	4,401,016	18,261,413	1,408,640	-
Total noncurrent assets	4,401,016	18,261,413	1,408,640	-
Total assets	11,483,000	23,053,967	4,235,956	-
DEFERRED OUTFLOWS OF RESOURCES				
Net loss on debt refundings	-	-	-	-
Total deferred outflows of resources	-	-	-	-
Total assets and deferred outflows of resources	11,483,000	23,053,967	4,235,956	-

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
$ -	$ -	$ -	$ 51,287	$ -	$ -	$ 51,287
-	-	-	2,787,010	-	-	2,787,010
-	-	-	9,809	-	-	9,809
-	-	-	-	-	-	-
-	-	-	2,848,106	-	-	2,848,106
-	-	1,791,198	-	137,212	12,822	4,227,247
-	-	-	-	628,949	-	10,996,502
-	-	-	-	-	-	-
3,262,986	2,558,756	-	-	-	-	5,821,742
-	-	3,660	-	2,799	-	46,487
-	-	23,044	-	1,107,839	-	3,139,141
3,262,986	2,558,756	1,817,902	-	1,876,799	12,822	24,231,119
3,262,986	2,558,756	1,817,902	2,848,106	1,876,799	12,822	27,079,225
-	-	-	1,475,769	-	-	1,475,769
-	-	-	1,475,769	-	-	1,475,769
10,129,630	7,943,659	-	-	-	-	18,073,289
-	-	-	-	384,847	-	4,785,863
3,263	2,559	-	-	-	-	5,822
-	-	130,663	-	-	-	19,800,716
10,132,893	7,946,218	130,663	-	384,847	-	42,665,690
10,132,893	7,946,218	130,663	1,475,769	384,847	-	44,141,459
13,395,879	10,504,974	1,948,565	4,323,875	2,261,646	12,822	71,220,684
-	-	-	-	-	-	-
-	-	-	-	-	-	-
13,395,879	10,504,974	1,948,565	4,323,875	2,261,646	12,822	71,220,684

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, 2017

	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	1,396	302	320	-
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	1,396	302	320	-
Total current liabilities	1,396	302	320	-
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	1,396	302	320	-
NET POSITION				
Restricted for:				
Industrial revenue debt and agricultural guarantees	11,481,604	-	-	-
Public safety loans	-	23,053,665	4,235,636	-
Agricultural and rural development loans	-	-	-	-
Renewable energy development	-	-	-	-
Credit enhancement	-	-	-	
Low income community investments	-	-	-	-
Unrestricted	-	-	-	-
Total net position	$ 11,481,604	$ 23,053,665	$ 4,235,636	$ -

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
$ -	$ -	$ -	$ 541	$ -	$ -	$ 541
-	-	-	-	-	-	-
-	-	-	541	-	-	541
-	-	-	-	128	-	2,146
-	-	-	-	-	169	169
3,262,986	2,558,756	-	-	-	-	5,821,742
-	-	1,651	-	-	-	1,651
-	-	61,190	-	-	-	61,190
-	-	-	-	-	-	-
3,262,986	2,558,756	62,841	-	128	169	5,886,898
3,262,986	2,558,756	62,841	541	128	169	5,887,439
-	-	187,322	-	-	-	187,322
-	-	-	-	-	-	-
-	-	187,322	-	-	-	187,322
-	-	187,322	-	-	-	187,322
3,262,986	2,558,756	250,163	541	128	169	6,074,761
-	-	-	-	-	-	11,481,604
-	-	-	-	-	-	27,289,301
10,132,893	7,946,218	1,698,402	-	-	-	19,777,513
-	-	-	-	2,261,518	-	2,261,518
-	-	-	-	-	-	-
-	-	-	-	-	12,653	12,653
-	-	-	4,323,336	-	-	4,323,336
$ 10,132,893	$ 7,946,218	$ 1,698,402	$ 4,323,336	$ 2,261,518	$ 12,653	$ 65,145,925

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, 2017

	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	-	14,954	-	-
Other revenue	-	-	-	-
Total operating revenue	-	14,954	-	-
Operating expenses:				
Professional services	6,440	1,253	1,250	-
General and administrative	-	-	-	-
Interest expense	-	-	-	-
Total operating expenses	6,440	1,253	1,250	-
Operating income (loss)	(6,440)	13,701	(1,250)	-
Nonoperating revenues (expenses):				
Transfer of funds and interest in program from the State of Illinois	-	452,379	-	-
Interest and investment income	48,339	20,991	15,142	509
Other	-	-	-	-
Total nonoperating revenues (expenses)	48,339	473,370	15,142	509
Net income before transfers	41,899	487,071	13,892	509
Transfers:				
Transfers in (out) to other funds	(417,678)	-	-	(600,509)
Total transfers in (out)	(417,678)	-	-	(600,509)
Change in net position	(375,779)	487,071	13,892	(600,000)
Net position - beginning of year	11,857,383	22,566,594	4,221,744	600,000
Net position - end of year	$ 11,481,604	$ 23,053,665	$ 4,235,636	$ -

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
$ -	$ -	$ -	$ -	$ -	$ -	$ -
-	-	106	-	-	-	106
-	-	10,114	-	23,190	-	48,258
-	-	-	-	-	1,107	1,107
-	-	10,220	-	23,190	1,107	49,471
-	-	5,174	1,995	12,452	644	29,208
-	-	-	-	-	36	36
-	-	2,939	-	-	-	2,939
-	-	8,113	1,995	12,452	680	32,183
-	-	2,107	(1,995)	10,738	427	17,288
-	-	-	-	-	-	452,379
77,574	60,756	3,143	11,940	3,267	-	241,661
-	24,191	1,335	118,368	-	-	143,894
77,574	84,947	4,478	130,308	3,267	-	837,934
77,574	84,947	6,585	128,313	14,005	427	855,222
-	417,678	-	-	-	-	(600,509)
-	417,678	-	-	-	-	(600,509)
77,574	502,625	6,585	128,313	14,005	427	254,713
10,055,319	7,443,593	1,691,817	4,195,023	2,247,513	12,226	64,891,212
$ 10,132,893	$ 7,946,218	$ 1,698,402	$ 4,323,336	$ 2,261,518	$ 12,653	$ 65,145,925

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, 2017

	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	(6,816)	(983)	(984)	-
Net cash used in operating activities	(6,816)	(983)	(984)	-
Cash flows from noncapital financing activities:				
Bonds and notes principal payments	-	-	-	-
Interest payments	-	-	-	-
Permanent capital transfer from the State	-	452,379	-	-
Permanent capital transfer to the State	-	-	-	-
Due from other funds	-	-	-	-
Due to other funds	-	-	-	-
Transfers from other funds	-	-	-	-
Transfers to other funds	(417,678)	-	-	(600,509)
Net cash provided by (used in) noncapital financing activities	(417,678)	452,379	-	(600,509)
Cash flows from investing activities:				
Purchase of investments	(6,409,447)	(2,835,760)	(3,900,624)	-
Sales and maturities of investments	6,579,000	799,656	2,117,768	-
Cash received on loan receivables and guarantees	-	1,960,213	74,320	-
Cash received for interest on loans	-	12,891	-	-
Cash payments on loan receivables and guarantees	-	(700,000)	(1,500,000)	-
Interest and dividends on investments	127,746	20,030	13,398	509
Net cash provided by (used in) investing activities	297,299	(742,970)	(3,195,138)	509
Net increase (decrease) in cash and cash equivalents	(127,195)	(291,574)	(3,196,122)	(600,000)
Cash and cash equivalents - beginning of year	753,637	1,207,873	3,939,396	600,000
Cash and cash equivalents - end of year	$ 626,442	$ 916,299	$ 743,274	$ -
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	$ (6,440)	$ 13,701	$ (1,250)	$ -
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Interest on loans	-	(14,954)	-	-
Interest expense	-	-	-	-
Changes in assets and liabilities:				
Accounts payable	(376)	270	266	-
Net cash provided by (used in) operating activities	$ (6,816)	$ (983)	$ (984)	$ -

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
$ -	$ -	$ 106	$ -	$ -	$ 1,107	$ 1,213
-	-	(5,174)	(1,751)	(22,522)	(680)	(38,910)
-	-	(5,068)	(1,751)	(22,522)	427	(37,697)
-	-	(60,584)	-	-	-	(60,584)
-	-	(3,091)	-	-	-	(3,091)
-	-	-	-	-	-	452,379
-	-	-	-	-	-	-
-	-	(5,825)	-	(12,603)	(6,853)	(25,281)
-	-	-	-	-	-	-
-	417,678	-	-	-	-	417,678
-	-	-	-	-	-	(1,018,187)
-	417,678	(69,500)	-	(12,603)	(6,853)	(237,086)
-	-	-	(3,905,680)	(390,300)	-	(17,441,811)
-	-	-	1,444,811	384,999	-	11,326,234
-	-	22,259	2,452,163	98,216	-	4,607,171
-	-	9,948	-	23,197	-	46,036
-	(417,678)	-	-	-	-	(2,617,678)
79,311	62,197	3,143	26,665	12,232	-	345,231
79,311	(355,481)	35,350	17,959	128,344	-	(3,734,817)
79,311	62,197	(39,218)	16,208	93,219	(6,426)	(4,009,600)
10,050,319	7,881,462	1,830,416	35,079	43,993	19,248	26,361,423
$ 10,129,630	$ 7,943,659	$ 1,791,198	$ 51,287	$ 137,212	$ 12,822	$ 22,351,823
$ -	$ -	$ 2,107	$ (1,995)	$ 10,738	$ 427	$ 17,288
-	-	(10,114)	-	(23,190)	-	(48,258)
-	-	2,939	-	-	-	2,939
-	-	-	244	(10,070)	-	(9,666)
$ -	$ -	$ (5,068)	$ (1,751)	$ (22,522)	$ 427	$ (37,697)

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, 2017, 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 6, 2017.

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 identified. 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 2017-001 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 response.

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 6, 2017

Current Findings – *Government Auditing Standards*

Finding 2017-001 Failure to reconcile and record cash received

The Illinois Finance Authority (Authority) did not reconcile and record cash received in a bank account pertaining to fiscal year 2018 interest income received in advance from local governments in fiscal year 2017.

During testing, the auditors confirmed all outstanding bank account balances held by the Authority at year-end and noted that the ending cash balance for the Local Government Borrowing Fund was understated by $36,411 relating to advances of interest income that related to fiscal year 2018. This revenue relates to prepayments of interest due August 1, 2017 and according to the Authority's accounting policies, is accrued ratably over six months. As of June 30, 2017, the Authority had accrued $30,343 as accrued interest receivable. Thus, this resulted in an overstatement of accrued interest receivable of $30,343 and an understatement of unearned revenue of $6,068. No statement of revenue, expenses, and changes in net position were affected. The Authority deemed the amount to be immaterial and thus did not record an adjusting entry.

In accordance with generally accepted accounting principles, revenue received in advance should be recorded as a liability (unearned revenue) and the cash received as part of assets. These amounts should be included in the financial statements of the Authority.

Additionally, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Authority to establish and maintain a system or systems of internal fiscal and administrative controls, which shall provide assurance that: (1) resources are utilized efficiently, effectively and in compliance with applicable law; (2) obligations and costs are in compliance with applicable law; (3) funds, property and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation; (4) revenues, expenditures, and transfers of assets resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources; and (5) funds held outside the State Treasury are managed, used, and obtained in strict accordance with the terms of their enabling authorities and that no unauthorized funds exist. Effective internal controls should include procedures to accurately reconcile and record financial transactions and accurately prepare financial statements.

The Authority recorded certain loan prepayments received from local government borrowers using an incomplete schedule of prepayments provided to the Authority by the paying agent on June 30, 2017, and thus, caused a discrepancy on the Authority's books regarding cash received. The issue underlying this finding was identified when the special assistant auditor independently confirmed the balances with the paying agent.

Failure to reconcile and accurately record financial transactions resulted in misstatements in the Authority's financial statements. (Finding Code No. 2017-001)

Recommendation

We recommend the Authority reconcile all bank accounts and record financial transactions in the correct fiscal year.

Current Findings – *Government Auditing Standards*

Finding 2017-001 Failure to reconcile and record cash received (Continued)

Authority Response

The Authority accepts the external auditor's recommendation.

This issues originates from the Authority's decision to use its reserve program funds to redeem all outstanding debt issued to make the loans to local governments under the Rural Bond Bank program 30 ILCS 360/2-6(c). Upon the redemption of the bonds all trust indentures entered into securing the bonds were terminated. The Authority entered into new agreements with a paying agent who collects the loan payments from the local governments. It is the responsibility of the paying agent to accurately report payments received by the paying agent prior to them remitting the funds to the Authority.

This portfolio of legacy local government loans originated with the now terminated Authority (and predecessor) Rural Bond Bank pooled loan and bond program (RBB Bond portfolio) that was enhanced by State moral obligation 20 ILCS 3501/801-40(w) or contingent state taxpayer guarantee. The origination dates of this legacy local government portfolio, currently numbering 57 loans, ranges between 1992 and 2009. In June 2014, the Authority used its own locally-held balance sheet and the reserve funds held within the RBB Bonds to redeem the entire portfolio of RBB Bonds, at the time valued at $34,932,649. The Authority undertook the redemption of the RBB Bond portfolio in order to remove an unnecessary risk to State taxpayer funds posed by the State moral obligation that was also no longer providing enhancement to the underlying local government borrowers. In addition, the Authority saved millions of dollars in interest costs while also providing a greater rate of return on the Authority's program investments.

On a going forward basis, the Authority will compare the schedule of payments received by the Pay Agent with the underlying account statements with respect to this portfolio of legacy local government loans.

In the future, the Authority will reconcile the schedule of prepayments and cash received to the quarterly account statements to ensure accuracy with respect to this portfolio of legacy local government loans.

Prior Finding Not Repeated

Failure to Write Off Uncollectible Balances

The Illinois Finance Authority ("Authority") had 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. In addition, for the past several years, the Authority had 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 (Finding Code No. 2016-001, 2015-001, 2014-002, 2013-004).

Status: Not Repeated

As of August 31, 2017, the Authority obtained the approval of the Attorney General to write-off certain loan and guarantee receivables from non-conduit debt. Specifically, $698,188 of General Operating Fund uncollectible balances, $394,126 of cumulative Illinois Agricultural Loan Guarantee Fund and Illinois Farmer and Agribusiness Loan Guarantee Fund uncollectible balances, and as of October 6, 2017, $235,000 from General Operating Fund uncollectible balances. This results in only $3,171 of the $1,330,485 prior year finding balance remaining uncollectible.

As of August 31, 2017, the Authority obtained the approval of the Attorney General to write-off its remaining Venture Capital Investments of $2,971,385 (100% of prior year finding amount), for which a 100% allowance for a decline in the market value was previously recognized.