# State of Illinois
# Illinois Finance Authority

Financial Audit
For the Year Ended June 30, 2018

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, 2018**

**Table of Contents**

**Agency Officials**

| | |
|---|---|
| Chairman of the Board of Directors | Mr. Eric Anderberg |
| Executive Director | Mr. Christopher Meister |
| 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 (4/2/18 – present) | Mr. Neil Heller |
| Member | Mr. Robert Horne |
| Member | Ms. Arlene Juracek |
| Member | Mr. Lerry Knox |
| Member | Mr. Lyle McCoy |
| Member (8/21/18 to present) | Mr. Shaun C. Murphy |
| Member | Mr. George Obernagel |
| Member | Mr. Terrence M. O'Brien |
| Member | Mr. Roger Poole |
| Member | Ms. Beth Smoots |
| 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.

RSM

**Independent Auditor's Report**

RSM US LLP

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, 2018, 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 opinion.

**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, 2018, 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, 2018, 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 6-20 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 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 net position – nonmajor funds, and combining statement of cash flows – nonmajor funds is 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 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 14, 2018 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 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 14, 2018

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, 2018. Because the intent of this management discussion and analysis is to look at financial performance as a whole, readers should also review the financial statements, and notes to the basic financial statements, to further enhance their understanding of the Authority's financial performance.

## Financial Highlights

The Authority has two major funds - the General Operating Fund and the Other State of Illinois Debt Fund. All other funds are aggregated and reported as Nonmajor funds. The Other State of Illinois Debt Fund accounts for debt obligations issued on behalf of borrowers who are part of the State of Illinois's reporting entity also known as a State of Illinois component units. Thus, although similar to conduit debt issues, these debt issues must be included in the Authority's financial statements.

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 $1.4 billion in Fiscal Year 2018, while Total Liabilities across all three categories equaled $1.3 billion. Total Assets and Deferred Outflows of Resources increased $597.5 million and Total Liabilities similarly increased $597.4 million from Fiscal Year 2017. These overall increases in Total Assets, Deferred Outflows of Resources, and Total Liabilities primarily occurred in the Other State of Illinois Debt Fund and are attributable to the issuance of $560 million Illinois Finance Authority State of Illinois Clean Water Initiative Revolving Fund Revenue Bonds, Series 2017 (Illinois Clean Water Initiative Bonds, Series 2017) on behalf of the Illinois Environmental Protection Agency (IEPA), which is a State of Illinois component unit.

On the Statement of Revenues, Expenses and Changes in Net Position, Total Revenues were $33.4 million or 54.4% higher than Fiscal Year 2017, while Total Expenses were $33.3 million or 80.0% higher than Fiscal Year 2017. Total Revenue increased $11.8 million due to greater operating and non-operating Interest and Investment Income in the Other State of Illinois Debt Fund as a result of the Illinois Clean Water Initiative Bonds, Series 2017. Operating expenses similarly increased $13.5 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 2017.

Net Position in the General Operating Fund increased $3.0 million, while the Net Position in the Nonmajor Funds decreased by $2.9 million, resulting in a Total Net Position of $121.8 million, which was an increase of 0.1% compared to Fiscal Year 2017.

In addition to the issuance of the Illinois Clean Water Initiative Bonds Series 2017 on behalf of the IEPA as a State of Illinois component unit during Fiscal Year 2018, the Authority also recognized certain activities taken by the Illinois Medical District Commission (IMDC) as a State of Illinois component unit during Fiscal Year 2018. The Illinois Medical District Commission redeemed all of its outstanding Series 2006B Bonds during the year. As of June 30, 2018, all of the bonds the Authority issued on behalf of the Illinois Medical District Commission secured by the moral obligation of the State of Illinois have been redeemed.

With the redemption/repayment of the IMDC bonds, the Authority achieved a long-sought management objective: eliminating moral obligation secured by State taxpayer dollars from *any* bond within its portfolio. As of June 30, 2018, no State taxpayer dollars are exposed through a pledge of the State's moral obligation within the portfolio of bonds issued by the Authority or its predecessors ($0, down from $101,440,000 in June 30, 2010). Further, unlike other bond-issuing entities created by State statute, to date the Authority has never triggered a call on State taxpayer funds due to a pledge of State moral obligation.

As reflected in the Authority's Nonmajor Funds, the Authority discontinued its Rural Development Revolving Loan Program and the Renewable Energy Development Loan Program in Fiscal Year 2018. Upon the discontinuance of the Rural Development Loan Program, the Authority transferred the outstanding loan receivables in the amount of $131 thousand to the General Operating Fund and paid the $249 thousand related debt to the U.S. Department of Agriculture's Rural Development Administration in full. In July 2017, the Authority received the final payment of $1.1 million from two participation loans the Authority originated in August 2007 from its Renewable Energy Development Loan Program. After the repayment of these, the only loans originated in this loan program, the Authority discontinued the program and returned the $2.0 million capitalization grant received to fund the program to the Illinois Clean Energy Community Foundation.

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.

Between July 2016 and June 2017, the Authority acquired receivables in the amount of $5.9 million from certain vendors to certain State agencies pursuant to one or more assignment agreements with such vendors that include 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 was essential to ongoing, core operations of the State because of one or more of the following reasons applied: (1) threats to public health or public safety, or (2) if immediate expenditure is necessary for repairs to state property in order to protect against further loss or damage to state property, or (3) to prevent or minimize serious disruption for critical state services that affect health, safety or collection of substantial state revenues, or (4) to ensure the integrity of state records. During Fiscal Year 2018, the Authority was paid $90 thousand in principal 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. As of June 30, 2018, the Authority has 16 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, 2018, 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.

## Authority Component Unit

The Illinois Finance Authority Development Fund Not-For-Profit (NFP) 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 | | | |
|---|---|---|---|---|
| | 2018 | 2017 | Difference ($) | Change (%) |
| Current assets | $ 430,532 | $ 262,969 | $ 167,563 | 63.7% |
| Capital assets, net | 63 | 13 | 50 | 384.6% |
| Noncurrent assets | 989,005 | 558,988 | 430,017 | 76.9% |
| Total assets | 1,419,600 | 821,970 | 597,630 | 72.7% |
| Total deferred outflow of resources | 266 | 409 | (143) | -35.0% |
| Total assets and deferred outflows of resources | 1,419,866 | 822,379 | 597,487 | 72.7% |
| Current liabilities | 99,367 | 64,360 | 35,007 | 54.4% |
| Noncurrent liabilities | 1,198,655 | 636,242 | 562,413 | 88.4% |
| Total liabilities | 1,298,022 | 700,602 | 597,420 | 85.3% |
| Net investment in capital assets | 63 | 13 | 50 | 384.6% |
| Restricted | 57,844 | 60,823 | (2,979) | -4.9% |
| Unrestricted | 63,937 | 60,941 | 2,996 | 4.9% |
| Total net position | $ 121,844 | $ 121,777 | $ 67 | 0.1% |

**Current assets** of $430.5 million increased $167.5 million or 63.7%, primarily due to the increase in cash and cash equivalents of $145.7 million due to the issuance of bonds on behalf of other State of Illinois component units, and an increase in our investment portfolio of $21.6 million.

**Capital assets, net of depreciation** increased $50 thousand or 384.6% due to the purchase of equipment.

**Non-current assets** of $989.0 million increased $430.0 million or 76.9% primarily due to the increase in bonds and notes receivable from the primary government of $448.2 million. The long-term portion of the Authority's investment portfolio decreased by $6.5 million, while the long-term bond and notes receivables from State component units decreased by $8.6 million.

**Current liabilities** of $99.3 million increased $35.0 million or 54.4% 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 $562.4 million or 88.4%, due to the additional debt payments on outstanding debt on behalf of the other State of Illinois component units.

**Net position** may serve, over a period of time, as a useful indicator of the Authority's financial position. As of June 30, 2018, total net position was $121.8 million, an increase of $67 thousand or 0.1% from the balance of $121.8 million in Fiscal Year 2017. Of this amount, $63 thousand represents the Authority's net investment in capital assets. Restricted net position of $57.8 million is reported separately to present legal constraints from debt covenants, grantors and/or enabling legislation. The $63.9 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, 2018.

The following table presents the changes in net position from Fiscal Year 2017 to 2018:

***Changes in Net Position***
*(Amounts in Thousands)*

| | Business-type Activities | | | |
|---|---|---|---|---|
| | **2018** | **2017** | **Difference ($)** | **Change (%)** |
| Revenues: | | | | |
| Closing fees | $ 3,165 | $ 4,047 | $ (882) | -21.8% |
| Annual fees | 365 | 318 | 47 | 14.8% |
| Administrative service fees | 184 | 244 | (60) | -24.6% |
| Application fees | 26 | 37 | (11) | -29.7% |
| Miscellaneous fees | 85 | 49 | 36 | 73.5% |
| Interest income - loans | 22,091 | 14,235 | 7,856 | 55.2% |
| Transfer of funds and interest in program from the State of Illinois | 447 | 452 | (5) | -1.1% |
| Bad debt recoveries and other | 29 | 208 | (179) | -86.1% |
| Interest and investment income | 7,008 | 2,047 | 4,961 | 242.4% |
| Total revenues | 33,400 | 21,637 | 11,763 | 54.4% |
| Expenses: | | | | |
| Employee related expenses | 1,881 | 1,769 | 112 | 6.3% |
| Professional services | 1,428 | 1,185 | 243 | 20.5% |
| Occupancy costs | 166 | 175 | (9) | -5.1% |
| General and administrative | 391 | 343 | 48 | 14.0% |
| Depreciation and amortization | 15 | 18 | (3) | -16.7% |
| Interest expense | 25,254 | 12,144 | 13,110 | 108.0% |
| Transfer of interest in program to Illinois Clean Energy | 2,000 | - | 2,000 | N/A |
| Loss on extinguishment of debt | 2,198 | 2,880 | (682) | -23.7% |
| Total expenses | 33,333 | 18,514 | 14,819 | 80.0% |
| Change in net position | 67 | 3,123 | (3,056) | -97.9% |
| Net position - beginning | 121,777 | 118,654 | 3,123 | 2.6% |
| Net position - ending | $ 121,844 | $ 121,777 | $ 67 | 0.1% |

Operating revenues included closing fees from conduit bond issuances of $3.2 million, a decrease of $882 thousand or 21.8%, due to the decrease in the number of conduit transaction closings in Fiscal Year 2018. Annual, administrative service, application and miscellaneous fees showed a collective increase of $12 thousand or 1.9%, due to an increase in Annual fees which were offset by the reduced number of administrative service fees and application fees. The interest income on loans shows an increase from Fiscal Year 2017 of $7.9 million, or 55.2%, due to the increase on outstanding loans in regards to other State of Illinois component unit debt. Interest and investment income of $7.0 million was higher than Fiscal Year 2017 by 242.4%, driven mostly by the increased investment portfolio generated by the additional bond proceeds.

All expenses totaled $33.3 million in Fiscal Year 2018, with an increase in interest expense and a transfer to Illinois Clean Energy due to the termination of the Renewable Energy loan program. The increase in expenses was offset by a decrease in the loss on the extinguishment of debt in the Other State of Illinois Debt Fund of $682 thousand.

**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, 2018 was $63 thousand.

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

| | 2018 | 2017 | Difference ($) | Change (%) |
|---|---|---|---|---|
| Furniture and equipment | $ 196 | $ 196 | $ - | 0.0% |
| Computers | 194 | 131 | 63 | 48.1% |
| Software | 288 | 288 | - | 0.0% |
| Total capital assets | 678 | 615 | 63 | 10.2% |
| Less: accumulated depreciation | (615) | (602) | (13) | 2.2% |
| Total capital assets, net | $ 63 | $ 13 | 50 | 384.6% |

**Long-Term Debt Obligations**

Long-term debt is incurred only to raise the capital necessary to provide low cost financing to businesses, agribusinesses, health care facilities, educational facilities, municipalities, and other organizations in order to strengthen the Illinois economy in areas of job creation and job retention. The Authority's primary 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, healthcare, 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 (e.g. beginning farmers; manufacturing companies; industrial revenue projects; operators of 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. Not including Beginning Farmer Bonds, the Authority issued revenue bonds for 31 separate conduit debt transactions in Fiscal Year 2018, with an aggregate principal amount of $3.17 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, 2018, the aggregate amount of intra-state debt outstanding is $1.1 billion, an increase of $502.1 million.

The Illinois Finance Authority Act also allows the Authority to issue revenue bonds with the State's moral obligation attached (contingent taxpayer guarantee on outstanding bonds). This pledge states that in the event that money will not be available for the payment of principal 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 2018. As of June 30, 2018, the aggregate amount of revenue bonds with the State's moral obligation attached is $0.0, a reduction of $14.1 million due to the full redemption of the Illinois Medical District Commission Series 2006B Bonds.

Besides paying off its moral obligation bonds, the Authority also has paid off the outstanding loan with the U.S. Department of Agriculture for $249 thousand. This loan was incurred to provide the funding for the Authority's Rural Development Loan Program. Due to a lack of interest, the Authority discontinued this loan program in Fiscal Year 2018.

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

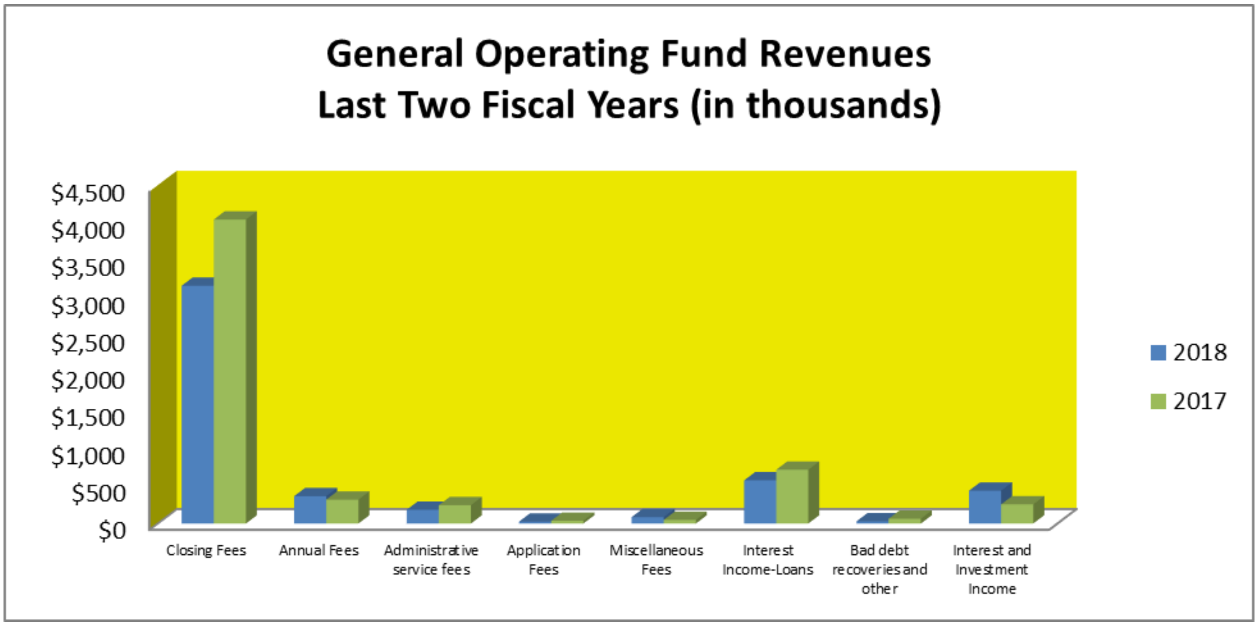
### Financial Analysis of the Authority's Funds

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 2018, closing fees accounted for 65.0% of total revenues in the fund, but were lower than the prior year by $882 thousand, or 21.8%, due to a 22% reduction in the number of closings and/or bonds issued in Fiscal Year 2018. Interest income on loans decreased by $141 thousand, or 19.7%, as a result of the lower amount of outstanding loans from the former Illinois Rural Bond Bank Loan Program. Administrative service fees total $184 thousand, which is a decrease of $60 thousand or 24.6% from the prior fiscal year in this category. Interest and investment income was higher by $182 thousand or 71.4% in Fiscal Year 2018. This occurred since the Authority earned a higher rate of return due to the increase in interest rates. Overall, revenues in the fund totaled $4.9 million, which was $863 thousand or 15.1% lower than Fiscal Year 2017. With spending held to just under $3.9 million, the General Operating Fund realized an increase in net position of $3.0 million. This increase includes transfers in other funds of $2.0 million.

*Revenues*
*(Amounts in Thousands)*

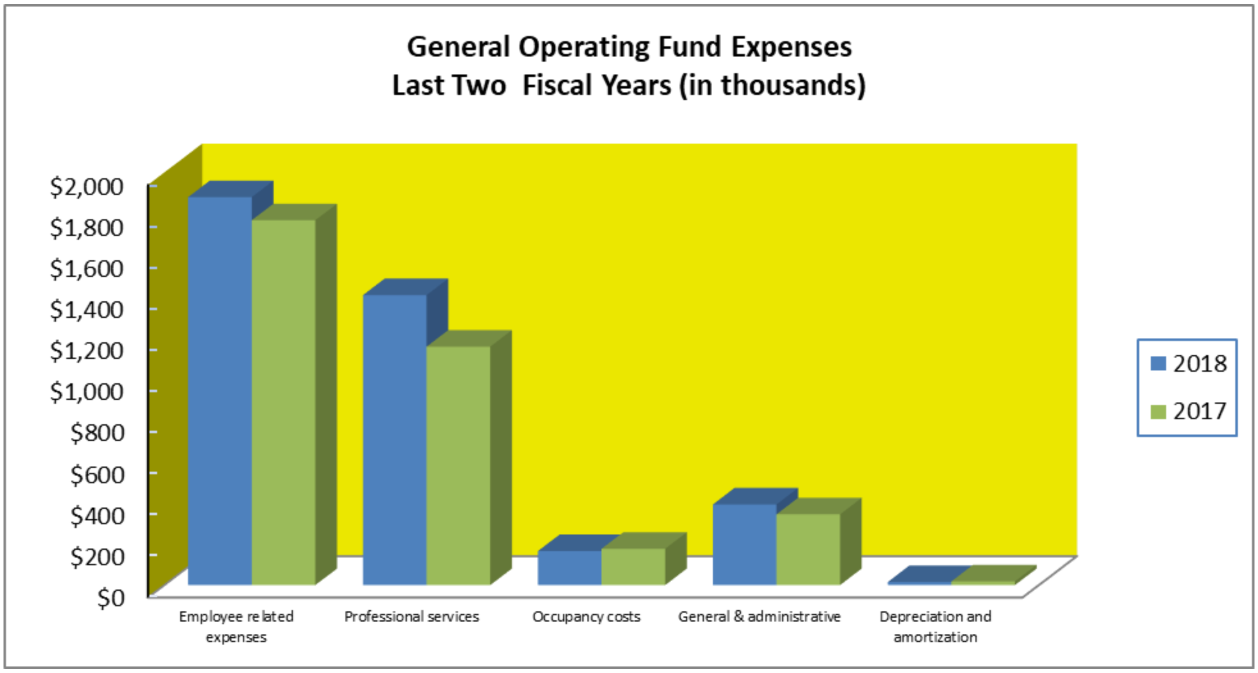
| | 2018 | 2017 | 2018 % of Total | Increase/ (Decrease) from 2017 ($) | Increase/ (Decrease) from 2017 (%) |
|---|---|---|---|---|---|
| Closing fees | $ 3,165 | $ 4,047 | 65.0% | $ (882) | -21.8% |
| Annual fees | 365 | 318 | 7.5% | 47 | 14.8% |
| Administrative service fees | 184 | 244 | 3.8% | (60) | -24.6% |
| Application fees | 26 | 37 | 0.5% | (11) | -29.7% |
| Miscellaneous fees | 85 | 48 | 1.7% | 37 | 77.1% |
| Interest income - loans | 575 | 716 | 11.8% | (141) | -19.7% |
| Bad debt recoveries and other | 29 | 64 | 0.6% | (35) | -54.7% |
| Interest and investment income | 437 | 255 | 9.0% | 182 | 71.4% |
| Total revenues | $ 4,866 | $ 5,729 | 100.0% | $ (863) | -15.1% |




Employee related expenses increased by $112 thousand or 6.3% from Fiscal Year 2017, due to an increase in the number of employees. Professional services costs increased by $250 thousand or 21.6% driven primarily by an increase in auditing expense of $138 thousand and a $119 thousand increase in legal fees. Occupancy costs fell by $11 thousand or 6.3%, since Fiscal Year 2017. General and administrative expenses increased by $48 thousand or 14.0%, due to an increase in public officials' management liability insurance premiums. Overall, expenses in the general operating fund were higher than Fiscal Year 2017 by $396 thousand or 11.4%.

***Expenses***
***(Amounts in Thousands)***

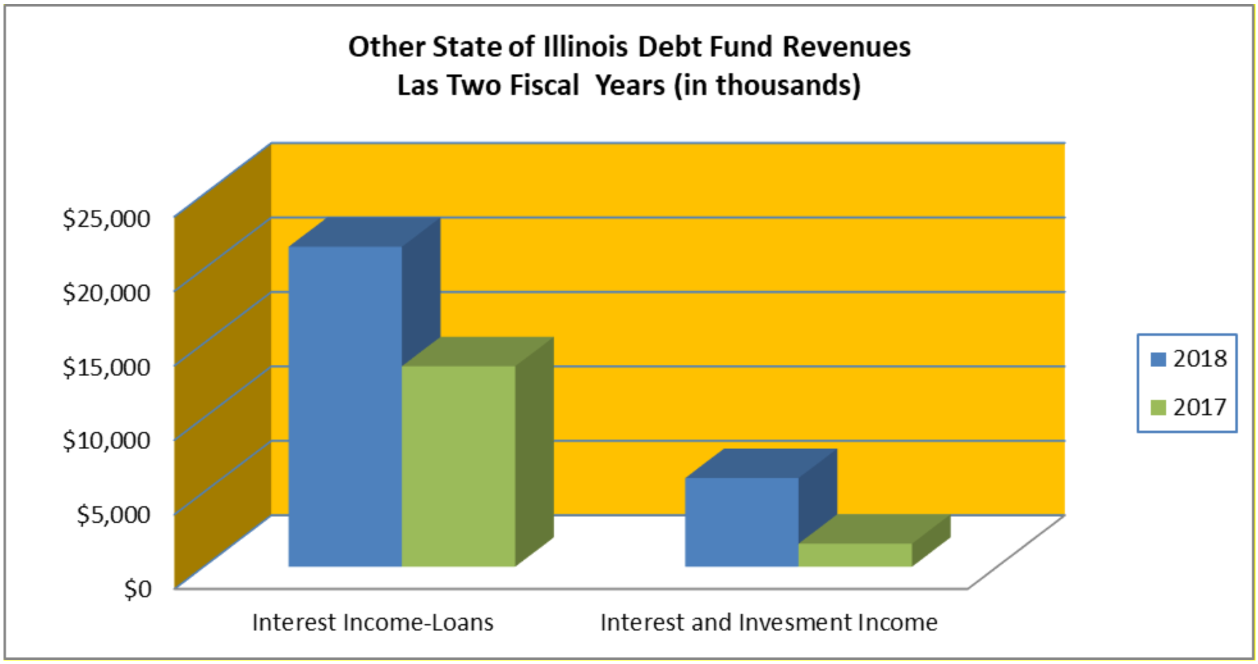
| | 2018 | 2017 | 2018% of Total | Increase/ (Decrease) from 2017 ($) | Increase/ (Decrease) from 2017 (%) |
|---|---|---|---|---|---|
| Employee related expenses | $ 1,881 | $ 1,769 | 48.8% | $ 112 | 6.3% |
| Professional services | 1,406 | 1,156 | 36.4% | 250 | 21.6% |
| Occupancy costs | 165 | 176 | 4.3% | (11) | -6.3% |
| General and administrative | 391 | 343 | 10.1% | 48 | 14.0% |
| Depreciation and amortization | 15 | 18 | 0.4% | (3) | -16.7% |
| Total expenses | $ 3,858 | $ 3,462 | 100.0% | $ 396 | 11.4% |




Other State of Illinois Debt Fund **–** The purpose of this fund is to account for bond proceeds, principal and interest payments, bonds and notes receivable transactions, and other debt related activity for other entities within the State of Illinois' reporting entity. These agencies include the Illinois Environmental Protection Agency, Illinois Medical District Commission and Northern Illinois University Foundation. The fund also collects interest and principal payments from the participating institutions and makes payments and interest on the bonds payable. All activity in this fund is of a conduit nature on behalf of the other State agencies and/or units. Interest income from loans totaled $21.5 million versus $13.5 million from Fiscal Year 2017, an increase of $8.0 million or 59.5%. This increase results from the additional loan made to the Illinois Environmental Protection Agency using bond proceeds. Interest and investment income was also higher in this fund by $4.4 million. Overall, revenues in the bond fund were $12.4 million or 82.7% higher than Fiscal Year 2017. The ending net position for this fund is zero.

***Revenues***
***(Amounts in Thousands)***

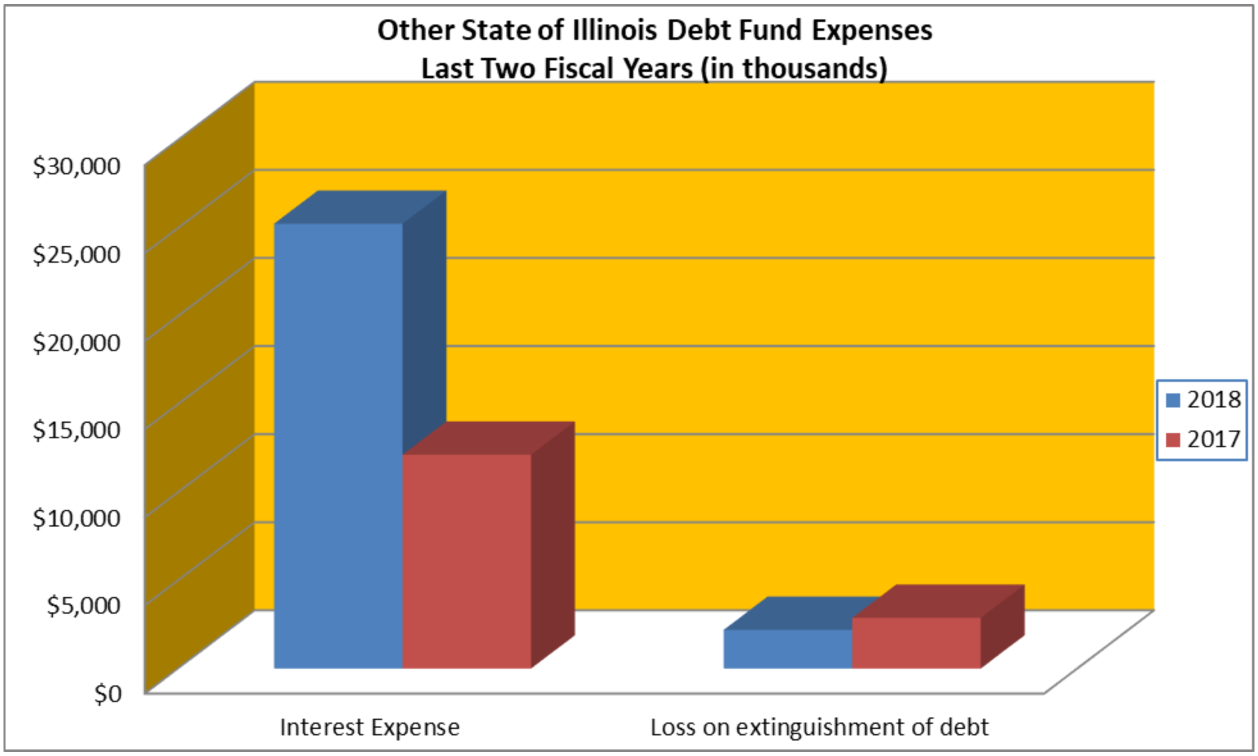
| | 2018 | 2017 | 2018 % of Total | Increase/ (Decrease) from 2017 ($) | Increase/ (Decrease) from 2017 (%) |
|---|---|---|---|---|---|
| Interest income loans | $ 21,489 | $ 13,470 | 78.3% | $ 8,019 | 59.5% |
| Interest and investment income | 5,961 | 1,551 | 21.7% | 4,410 | 284.3% |
| Total revenues | $ 27,450 | $ 15,021 | 100.00% | $ 12,429 | 82.7% |




Interest expense in the fund totaled $25.2 million, which is an increase of $13.1 million from Fiscal Year 2017. The increase is attributable to the increase in debt, due to an issuance of $560 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 2018, due to the redemption of all remaining 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)***

| | 2018 | 2017 | 2018 % of Total | Increase/ (Decrease) from 2017 ($) | Increase/ (Decrease) from 2017 (%) |
|---|---|---|---|---|---|
| Interest expense | $ 25,252 | $ 12,141 | 92.0% | $ 13,111 | 108.0% |
| Loss on extinguishment of debt | 2,198 | 2,880 | 8.0% | (682) | -23.7% |
| Total expenses | $ 27,450 | $ 15,021 | 100.0% | $ 12,429 | 82.7% |




**Economic Factors, Decisions and Conditions**

<u>All Funds</u> - The Authority receives revenues from: the management and closing of financial bond issues and other transactions; evaluating, documenting, and closing loan applications; bond and loan application fees; annual maintenance fees for ongoing agreements; interest on loans; and investment income. The Authority closed Fiscal Year 2018 (ended June 30, 2018) having issued more than $3.17 billion in conduit debt during the 12-month period. 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 fiscal year also demonstrate the job creation power of conduit bonds when used by the private sector. 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 2018 net position of $121.8 million. On December 22, 2017, the President signed into law the Tax Cuts and Jobs Act, 115 Public Law 97 (the TCJA). In its final form, the TCJA preserved the federal tax exemption for interest on private activity bonds but eliminated advance refunding, a refinancing option, for all tax-exempt bonds, including bonds by states and state component units. The effects of the TCJA are expected to play out over the coming months and years. The related sequence of events from November 2, 2017 to December 6, 2017, was highlighted in the subsequent events section of the Authority's FY17 Financial Audit, at Note 18.

These events exposed a deficiency in the Authority's revenue structure, as 65 percent of the Authority's operating revenue is derived through the issuance of conduit debt. In order to diversify the Authority's operating revenue, to better serve its mission for the people of Illinois, and in connection with the adoption of the Authority's Fiscal Year 2019 budget, the Authority in June 2018 adopted a new growth and impact strategy called the Transformation Initiative (Initiative). This Initiative is designed to help meet Illinois' most pressing challenges in innovative ways and more effectively achieve the Authority's mission of promoting job creation and enhancing the quality of life for the people of Illinois.

The Authority's Transformation Initiative consists of the following program components:

- Commercial Property Assessed Clean Energy (C-Pace)
- Rejuvenated Participation Loan Business Line
- Healthcare Transformation Initiative
- Illinois Infrastructure Investment Fund
- Innovative Project Finance and Delivery (IPFD), also known as Public Private Partnership (P3)
- Non-State Revolving Fund Water Infrastructure Financing
- Opportunity Zones

In August 2018, the Governor of Illinois signed into law SB 43 (Public Act 100-0919, effective immediately) and SB 2773 (Public Act 100-0980, effective on January 1, 2019). Together, these Acts will enable the Authority to offer commercial and industrial property owners a more affordable financing option for their energy efficiency, renewable energy, and water conservation projects as local governments can now finance these C-PACE (Commercial Property Assessed Clean Energy) projects more efficiently and economically through the Authority.

Already under development, the Authority's C-PACE initiative will offer counties, cities, and villages a turnkey solution for bond issuance and standardized bond documents. Local governments can assign C-PACE assessment contracts to the Authority, which can effectively pool contracts across multiple jurisdictions to achieve economies of scale and cost savings for all.

Thanks in part to the enactment of SB 43, the Authority has rejuvenated its Participation Loan business line, which offers participation loans to businesses that create or retain jobs, with special opportunities for veteran, minority, women and disabled-owned businesses. Authority staff is in the process of rapidly expanding its roster of participating lenders and expects to establish a geographically diverse group of at least twenty by June 30, 2019.

Nonmajor Funds - As of June 30, 2018, the Authority's nonmajor funds in aggregate reported unrestricted net position of $4.4 million and restricted net position of $57.8 million, for a total net position of $62.2 million. The net position restricted in the nonmajor funds is for locally held agricultural guarantees, public safety, agricultural guarantees and low income community investments.

## Notes to Basic Financial Statements

The Notes to 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/2018 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, 2018**

| | General Operating Fund | Other State of Illinois Debt Fund | Nonmajor Funds | Total Business-Type Activities |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Current assets: | | | | |
| Current unrestricted assets: | | | | |
| Cash and cash equivalents | $ 8,779,192 | $ - | $ 300,437 | $ 9,079,629 |
| Investments | 29,633,409 | - | 3,570,624 | 33,204,033 |
| Receivables from unsettled investment sales | 390,000 | - | - | 390,000 |
| Accounts receivable, net | 41,280 | - | - | 41,280 |
| Loans receivable, net | 154,862 | - | - | 154,862 |
| Accrued interest receivable | 581,013 | - | 13,343 | 594,356 |
| Bonds and notes receivable | 1,180,200 | - | - | 1,180,200 |
| Due from other funds | 208 | - | - | 208 |
| Prepaid expenses | 39,991 | - | - | 39,991 |
| Total current unrestricted assets | 40,800,155 | - | 3,884,404 | 44,684,559 |
| Current restricted assets: | | | | |
| Cash and cash equivalents | - | 351,908,979 | 1,905,625 | 353,814,604 |
| Investments | - | 4,998,220 | 17,464,200 | 22,462,420 |
| Securities lending collateral equity with the State Treasurer | - | - | 7,415,000 | 7,415,000 |
| Accrued interest receivable | - | 85,215 | 57,537 | 142,752 |
| Loans receivables, net | - | - | 2,012,401 | 2,012,401 |
| Total current restricted assets | - | 356,992,414 | 28,854,763 | 385,847,177 |
| Total current assets | 40,800,155 | 356,992,414 | 32,739,167 | 430,531,736 |
| Noncurrent assets: | | | | |
| Noncurrent unrestricted assets: | | | | |
| Investments | 7,383,266 | - | 483,324 | 7,866,590 |
| Loans receivables, net | 2,915,626 | - | - | 2,915,626 |
| Bonds and notes receivable | 8,890,837 | - | - | 8,890,837 |
| Capital assets, net of accumulated depreciation | 63,028 | - | - | 63,028 |
| Total noncurrent unrestricted assets | 19,252,757 | - | 483,324 | 19,736,081 |
| Noncurrent restricted assets: | | | | |
| Cash and cash equivalents | - | - | 18,336,624 | 18,336,624 |
| Investments | - | - | 664,646 | 664,646 |
| Accrued interest receivable | - | - | 30,000 | 30,000 |
| Loans receivables, net | - | - | 17,375,499 | 17,375,499 |
| Bonds and notes receivable from primary government | - | 931,826,401 | - | 931,826,401 |
| Bonds and notes receivable from State component units | - | 1,099,096 | - | 1,099,096 |
| Total noncurrent restricted assets | - | 932,925,497 | 36,406,769 | 969,332,266 |
| Total noncurrent assets | 19,252,757 | 932,925,497 | 36,890,093 | 989,068,347 |
| Total assets | 60,052,912 | 1,289,917,911 | 69,629,260 | 1,419,600,083 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | | |
| Net loss on debt refundings | - | 265,582 | - | 265,582 |
| Total deferred outflows of resources | - | 265,582 | - | 265,582 |
| Total assets and deferred outflows of resources | 60,052,912 | 1,290,183,493 | 69,629,260 | 1,419,865,665 |

(Continued)

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

**Statement of Net Position (Continued)**
**June 30, 2018**

| | General Operating Fund | Other State of Illinois Debt Fund | Nonmajor Funds | Total Business-Type Activities |
|---|---|---|---|---|
| **LIABILITIES** | | | | |
| Current liabilities: | | | | |
| Payable from unrestricted current assets: | | | | |
| Accounts payable | $ 82,720 | $ - | $ 546 | $ 83,266 |
| Accrued liabilities | 86,960 | - | - | 86,960 |
| Due to employees | 106,062 | - | - | 106,062 |
| Due to primary government | 50,001 | - | - | 50,001 |
| Unearned revenue, net of accumulated amortization | 93,311 | - | - | 93,311 |
| Total current liabilities payable from unrestricted current assets | 419,054 | - | 546 | 419,600 |
| Payable from restricted current assets: | | | | |
| Accounts payable | - | - | 2,460 | 2,460 |
| Due to other funds | - | - | 208 | 208 |
| Obligation under securities lending of the State Treasurer | - | - | 7,415,000 | 7,415,000 |
| Accrued interest payable | - | 26,435,403 | - | 26,435,403 |
| Bonds and notes payable, primary government | - | 64,685,000 | - | 64,685,000 |
| Bonds and notes payable, State component units | - | 360,295 | - | 360,295 |
| Other liabilities | - | 48,660 | - | 48,660 |
| Total current liabilities payable from restricted current assets | - | 91,529,358 | 7,417,668 | 98,947,026 |
| Total current liabilities | 419,054 | 91,529,358 | 7,418,214 | 99,366,626 |
| 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 | - | 1,029,430,000 | - | 1,029,430,000 |
| Bonds and notes payable, State component units | - | 738,801 | - | 738,801 |
| Unamortized bond premium | - | 168,485,334 | - | 168,485,334 |
| Total noncurrent liabilities payable from restricted noncurrent assets | - | 1,198,654,135 | - | 1,198,654,135 |
| Total noncurrent liabilities | 585 | 1,198,654,135 | - | 1,198,654,720 |
| Total liabilities | 419,639 | 1,290,183,493 | 7,418,214 | 1,298,021,346 |
| **NET POSITION** | | | | |
| Net investment in capital assets | 63,028 | - | - | 63,028 |
| Restricted for: | | | | |
| Industrial revenue debt and agricultural guarantees | - | - | 11,612,812 | 11,612,812 |
| Public safety loans | - | - | 27,852,495 | 27,852,495 |
| Agricultural and rural development loans | - | - | 18,366,624 | 18,366,624 |
| Low income community investments | - | - | 11,933 | 11,933 |
| Unrestricted | 59,570,245 | - | 4,367,182 | 63,937,427 |
| Total net position | $ 59,633,273 | $ - | $ 62,211,046 | $ 121,844,319 |

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, 2018**

| | General Operating Fund | Other State of Illinois Debt Fund | Nonmajor Funds | Total Business-Type Activities |
|---|---|---|---|---|
| Operating revenues: | | | | |
| Closing fees | $ 3,164,516 | $ - | $ - | $ 3,164,516 |
| Annual fees | 364,553 | - | - | 364,553 |
| Administrative service fees | 184,200 | - | - | 184,200 |
| Application fees | 25,600 | - | - | 25,600 |
| Miscellaneous fees | 25,699 | - | 213 | 25,912 |
| Interest income - loans | 575,439 | 21,489,109 | 26,881 | 22,091,429 |
| Other revenue | 59,488 | | - | 59,488 |
| Total operating revenue | 4,399,495 | 21,489,109 | 27,094 | 25,915,698 |
| Operating expenses: | | | | |
| Employee related expenses | 1,881,259 | - | - | 1,881,259 |
| Professional services | 1,405,467 | - | 22,457 | 1,427,924 |
| Occupancy costs | 165,405 | - | - | 165,405 |
| General and administrative | 391,196 | - | 39 | 391,235 |
| Interest expense | - | 25,252,522 | 1,839 | 25,254,361 |
| Depreciation and amortization | 14,833 | - | - | 14,833 |
| Total operating expenses | 3,858,160 | 25,252,522 | 24,335 | 29,135,017 |
| Operating income (loss) | 541,335 | (3,763,413) | 2,759 | (3,219,319) |
| Nonoperating revenue (expenses): | | | | |
| Transfers of funds and interest in program from the State of Illinois | - | - | 447,207 | 447,207 |
| Transfer of interest in Program to Illinois Clean Energy | - | - | (2,000,000) | (2,000,000) |
| Interest and investment income | 437,575 | 5,961,220 | 609,456 | 7,008,251 |
| Other | 29,300 | - | - | 29,300 |
| Total nonoperating revenues (expenses) | 466,875 | 5,961,220 | (943,337) | 5,484,758 |
| Net income (loss) before transfers and other financing sources (uses) | 1,008,210 | 2,197,807 | (940,578) | 2,265,439 |
| Transfers and other financing sources (uses): | | | | |
| Loss on extinguishment of debt | - | (2,197,807) | - | (2,197,807) |
| Transfers in from other funds | 1,994,301 | - | - | 1,994,301 |
| Transfers out to other funds | - | - | (1,994,301) | (1,994,301) |
| Total transfers and other financing sources (uses) | 1,994,301 | (2,197,807) | (1,994,301) | (2,197,807) |
| Change in net position | 3,002,511 | - | (2,934,879) | 67,632 |
| Net position - beginning of year | 56,630,762 | - | 65,145,925 | 121,776,687 |
| Net position - end of year | $ 59,633,273 | $ - | $ 62,211,046 | $ 121,844,319 |

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, 2018**

| | General Operating Fund | Other State of Illinois Debt Fund | Nonmajor Funds | Total Business-Type Activities |
|---|---|---|---|---|
| Cash flows from operating activities: | | | | |
| Cash received for fees and other | $ 3,835,625 | $ - | $ 213 | $ 3,835,838 |
| Cash payments for employee services | (1,845,965) | - | - | (1,845,965) |
| Cash payments to suppliers for goods and services | (1,966,637) | - | (22,177) | (1,988,814) |
| Net cash provided by (used in) operating activities | 23,023 | - | (21,964) | 1,059 |
| Cash flows from noncapital financing activities: | | | | |
| Bonds and notes principal payments | - | (57,878,392) | (248,512) | (58,126,904) |
| Proceeds from issuance of bonds | - | 664,471,981 | - | 664,471,981 |
| Interest payments | - | (37,898,803) | (3,491) | (37,902,294) |
| Permanent capital transfer from the State | - | - | 447,207 | 447,207 |
| Transfer of interest in program to Illinois Clean Energy | - | - | (2,000,000) | (2,000,000) |
| Due from other funds | (39) | - | - | (39) |
| Due to other funds | - | - | 39 | 39 |
| Transfers from other funds | 1,863,665 | - | - | 1,863,665 |
| Transfers to other funds | - | - | (1,863,665) | (1,863,665) |
| Net cash provided by (used in) noncapital financing activities | 1,863,626 | 568,694,786 | (3,668,422) | 566,889,990 |
| Cash flows from capital and related financing activities: | | | | |
| Purchase of capital assets | (65,206) | - | - | (65,206) |
| Net cash used in capital and related financing activities | (65,206) | - | - | (65,206) |
| Cash flows from investing activities: | | | | |
| Purchase of investments | (63,340,520) | (2,333,565,188) | (35,906,133) | (2,432,811,841) |
| Maturity and sales of investments | 51,560,513 | 2,332,209,678 | 33,779,290 | 2,417,549,481 |
| Interest and dividends on investments | 442,411 | 5,589,003 | 555,138 | 6,586,552 |
| Cash received for interest on loans | 626,237 | 21,490,518 | 31,633 | 22,148,388 |
| Cash received on loan receivables and guarantees | 2,225,315 | 320,203,836 | 3,421,321 | 325,850,472 |
| Cash payments on loan receivables and guarantees | (667,626) | (759,748,603) | - | (760,416,229) |
| Net cash provided by (used in) investing activities | (9,153,670) | (413,820,756) | 1,881,249 | (421,093,177) |
| Net increase (decrease) in cash and cash equivalents | (7,332,227) | 154,874,030 | (1,809,137) | 145,732,666 |
| Cash and cash equivalents - beginning of year | 16,111,419 | 197,034,949 | 22,351,823 | 235,498,191 |
| Cash and cash equivalents - end of year | $ 8,779,192 | $ 351,908,979 | $ 20,542,686 | $ 381,230,857 |

**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, 2018**

| | General Operating Fund | Other State of Illinois Debt Fund | Nonmajor Funds | Total Business-Type Activities |
|---|---|---|---|---|
| Reconciliation of operating income (loss) to net cash provided by (used in) operating activities: | | | | |
| Operating income (loss) | $ 541,335 | $ (3,763,413) | $ 2,759 | $ (3,219,319) |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities: | | | | |
| Depreciation and amortization | 14,833 | - | - | 14,833 |
| Interest on loans | (575,439) | (21,489,109) | (26,881) | (22,091,429) |
| Interest expense | - | 25,252,522 | 1,839 | 25,254,361 |
| Changes in assets and liabilities: | | | | |
| Accounts receivable | 19,070 | - | - | 19,070 |
| Unearned revenue | (7,500) | - | - | (7,500) |
| Prepaid expenses | (245) | - | - | (245) |
| Accounts payable and accrued liabilities | 20,628 | - | 319 | 20,947 |
| Due to employees | 10,341 | - | - | 10,341 |
| Net cash provided by (used in) operating activities | $ 23,023 | $ - | $ (21,964) | $ 1,059 |

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, 2018**

| | Metro East Police District Commission Fund |
|---|---|
| **Assets** | |
| Current assets: | |
| Cash and cash equivalents | $ 4,952 |
| **Liabilities** | |
| Current liabilities: | |
| Other liabilities | $ 4,952 |

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, 2018**

| | Metro East Police District Commission Fund |
|---|---|
| **Assets** | |
| Cash and cash equivalents | |
| July 1, 2017 | $ 4,762 |
| Additions | 2,078 |
| Deductions | (1,888) |
| Total Cash and cash equivalents | |
| June 30, 2018 | 4,952 |
| Total Assets | |
| July 1, 2017 | 4,762 |
| Additions | 2,078 |
| Deductions | (1,888) |
| Total Assets | |
| June 30, 2018 | $ 4,952 |
| **Liabilities** | |
| Other Liabilities | |
| July 1, 2017 | $ 4,762 |
| Additions | 2,078 |
| Deductions | (1,888) |
| Total Other Liabilities | |
| June 30, 2018 | 4,952 |
| Total Liabilities | |
| July 1, 2017 | 4,762 |
| Additions | 2,078 |
| Deductions | (1,888) |
| Total Liabilities | |
| June 30, 2018 | $ 4,952 |

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 2018, 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, 2018:

- 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).

- 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.

- 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).

## 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 for debt that is defeased in substance.

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

- 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. 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. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

## Note 1. Summary of Significant Accounting Policies (Continued)

*New Accounting Standards (Continued)*

- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

- GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

- GASB Statement No. 90, *Majority Equity Interests – an Amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

No determination has been reached by management on the impact, if any, the above standards will have on the Authority's future financial statements.

## Note 1. Summary of Significant Accounting Policies (Continued)

*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 major proprietary funds (enterprise), with each major 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;
- 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; and
- Primary Government Borrowing Fund – Accounts for monies received from the state vendor receivables program.

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

*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, 2018, the amount held by the Authority on behalf of the Metro East Police District Commission was $4,952.

## Note 1. Summary of Significant Accounting Policies (Continued)

*Basis of Presentation (Continued)*

*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.

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 2018. As of June 30, 2018, restricted net position of the IFADF, which is presented as part of the nonmajor funds as the Authority is the sole member of the corporation, is $11,933.

## Note 1. Summary of Significant Accounting Policies (Continued)

*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, Money Market Mutual Funds, 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.

*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 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.

**Note 1. Summary of Significant Accounting Policies (Continued)**

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

*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.

*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 are 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.

## Note 1. Summary of Significant Accounting Policies (Continued)

*Vacation and Sick Leave (Continued)*

Activity related to accrued vacation leave for the year ended June 30, 2018, consisted of the following:

| Balance June 30, 2017 | Earned | Paid | Balance June 30, 2018 | Due Within One Year |
|---|---|---|---|---|
| $ 95,721 | $ 96,033 | $ 85,692 | $ 106,062 | $ 106,062 |

*Healthcare Benefits*

The Authority offers healthcare, dental, and vision benefits to employees and their dependents. Employees can choose either an HMO plan or a PPO plan. The Authority pays for a percentage of the cost of the premium ranging from 82.50% for employees choosing family coverage to 90% for employees choosing coverage for themselves only. The employees pay the remaining premium cost.

The Authority's retirees are not eligible to participate in the Authority's healthcare plan thus, the Authority does not have an other postemployment benefit obligation.

*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 2018.

*Net Position*

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

<u>Investment in Capital Assets</u> - This component consists of capital assets, net of accumulated depreciation. As of June 30, 2018, the Authority had investments in capital assets of $63,028.

<u>Restricted</u> - 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, 2018, the Authority had restricted net position of $57,843,864 of which $57,831,931 is restricted by enabling legislation.

<u>Unrestricted</u> - 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, 2018, the Authority had unrestricted net position of $63,937,427.

## Note 1. Summary of Significant Accounting Policies (Continued)

*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, 2018, the aggregate amount of conduit debt outstanding is approximately $23.6 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, 2018, are classified in the accompanying basic financial statements as follows:

| | |
|---|---|
| Cash and cash equivalents - unrestricted | $ 9,079,629 |
| Cash and cash equivalents - fiduciary fund | 4,952 |
| Cash and cash equivalents - restricted current assets | 353,814,604 |
| Cash and cash equivalents - restricted noncurrent assets | 18,336,624 |
| Investments - unrestricted current assets | 33,204,033 |
| Investments - unrestricted noncurrent assets | 7,866,590 |
| Investments - restricted current assets | 22,462,420 |
| Investments - restricted noncurrent assets | 664,646 |
| Total | $ 445,433,498 |

Cash and investments as of June 30, 2018, consist of the following:

| | |
|---|---|
| Deposits with financial institutions | $ 18,192 |
| Deposits with State of Illinois Treasurer | 18,631,897 |
| Investments | 426,783,409 |
| Total | $ 445,433,498 |

## Note 3. Cash, Deposits and Investments (Continued)

*Allowable Investments*

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

a. U.S. Government securities, including securities of the federal agencies;
b. Securities guaranteed by the federal government;
c. Savings accounts, certificates of deposit, and time deposits in banks or savings and loans insured by the Federal Deposit Insurance Corporation (FDIC), with any deposits in excess of amounts insured by the FDIC are collateralized;
d. Short-term obligations of U.S. corporations with assets exceeding $500,000,000 and rated investment grade and which mature not later than 180 days from the date of purchase, provided that such obligations do not exceed 10% of the corporation's outstanding obligations and no more than one-third of the Authority's funds are invested in such obligations;
e. Money market mutual funds registered under the Investment Company Act of 1940, provided the portfolio is limited to either U.S. government or government-backed securities;
f. Shares of other forms of securities legally issued by savings banks or savings and loan associations, if such securities are insured by the FDIC;
g. Dividend-bearing share accounts, share certificate accounts or class of share accounts of a credit union, if insured under applicable law;
h. The Illinois Funds;
i. A fund managed, operated, and administered by a bank, subsidiary of a bank, or subsidiary of a bank holding company or uses the services of such an entity to hold, invest or advise on investments; and,
j. Repurchase agreements of government securities.

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

The Authority's investment policy excludes funds committed to credit enhancement, federally assisted programs, and funds held by bond trustees that are governed by the provisions of bond agreements. The allowable investments are as follows:

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

## Note 3. Cash, Deposits and Investments (Continued)

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

*Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of fixed income investment securities, the more sensitive they are to changes in interest rates. The Authority manages its exposure to interest rate risk by basing its investment decisions regarding maturity dates and rates on an analysis of the Authority's short-, mid-, and long-term cash needs and keeping the portfolio sufficiently liquid to enable the Authority to meet its operating requirements. In addition, the Authority's investment policy limits any new investments to maturities of five years or less unless approved by the Executive Director.

As of June 30, 2018, the weighted average maturities of the Authority's investments were:

| Investment Type | June 30, 2018 | Weighted Average Maturity (in years) |
|---|---|---|
| U.S. Treasury notes | $ 20,240,932 | 0.45 |
| U.S. Government agency securities | 28,645,578 | 0.48 |
| Money market mutual funds | 358,585,511 | N/A |
| Corporate debt securities | 15,311,177 | 0.31 |
| Repurchase agreements | 4,000,211 | 0.01 |
| Total | $ 426,783,409 | |

*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, 2018 | Ratings S & P | Ratings Moody's |
|---|---|---|---|
| U.S. Treasury notes | $ 20,240,932 | AA+ | Aaa |
| U.S. Government agency securities | 28,645,578 | AA+ | Aaa |
| Money market mutual funds | 358,585,511 | AAA | Aaa |
| Corporate debt securities | 805,752 | AA+ | Aa1 |
| Corporate debt securities | 1,619,331 | AA- | A1 |
| Corporate debt securities | 2,510,740 | A+ | A1 |
| Corporate debt securities | 1,164,790 | A+ | A3 |
| Corporate debt securities | 993,239 | A+ | Aa3 |
| Corporate debt securities | 2,013,389 | A | A1 |
| Corporate debt securities | 3,653,739 | A | A2 |
| Corporate debt securities | 750,379 | A | A3 |
| Corporate debt securities | 604,859 | A- | A2 |
| Corporate debt securities | 1,194,959 | A- | A3 |
| Repurchase agreements | 4,000,211 | AAA | Aaa |
| Total | $ 426,783,409 | | |

*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, 2018, 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 |
|---|---|---|
| Goldman Sachs Financial Square Government Fund | Money Market Mutual Funds | $ 154,203,377 |
| Goldman Sachs Financial Square Treasury Obligations Fund | Money Market Mutual Funds | 204,351,322 |

*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 Savings Association Insurance Fund (SAIF) 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, 2018, $5,893 of the Authority's bank balance of $328,667 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, 2018, the Authority had invested $4,000,211 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 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, 2018.

| Assets Investments | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| U.S. Treasury notes | $ 20,240,932 | $ 20,240,932 | $ - | $ - |
| U.S. Government agency securities | 28,645,578 | - | 28,645,578 | - |
| Corporate debt securities | 15,311,177 | - | 15,311,177 | - |
| Repurchase agreements | 4,000,211 | 4,000,211 | - | - |
| Money market mutual funds | 358,585,511 | 358,585,511 | - | - |
| Total Investments | $ 426,783,409 | $ 382,826,654 | $ 43,956,755 | $ - |

## 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 years 2018 and 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 $4,156,000 and $3,259,000, respectively, as of June 30, 2018.

## 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.

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 from 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, 2018, were $233,001 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, 2018 were $2,339,686 within the General Operating Fund.

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

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. In June 2018, the Authority discontinued this program. The outstanding loans balances were transferred to the General Operating Fund. The related debt with the U.S. Department of Agriculture's' Rural Development Administration was paid in full; see Note 11.

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. Total loans outstanding as of June 30, 2018, were $18,009,260 within the Locally Held Fire Truck Revolving Loan Fund. As of June 30, 2018, no loans had been made under this program for brush trucks.

Ambulance Revolving Loan Program - This program provides zero and low interest rate loans for the purchase of ambulances by fire departments, fire protection districts, township fire departments, and non-profit ambulance services. The loans may not exceed $100,000 and must be repaid within 10 years. The program was originally funded by an appropriation of $4,000,000 received by the State of Illinois and administered by the Authority, through a Locally Held Fund. This transfer of funds was converted to program interest for the Authority, as recorded on the financial statements for the Fiscal Year ended June 30, 2014. Current and future program transfers are funded from State of Illinois collections on outstanding debt. Total loans outstanding as of June 30, 2018, were $1,378,640 within the nonmajor funds.

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, 2018, were $501,476 in the General Operating Fund.

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

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, 2018, were $10,071,037 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, 2018, were $932,925,497 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 In June 2018 the Authority terminated this program and returned the $2,000,000 capitalization grant to the Illinois Clean Energy Community Foundation. Total loans outstanding as of June 30, 2018, were zero within the nonmajor funds.

*Allowance for Doubtful Accounts*

The allowance for doubtful accounts for all loans and notes receivable on June 30, 2018 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, 2018, consisted of the following:

| | Fund | All Receivables June 30, 2018 | Allowance for Doubtful Accounts | Net Receivable June 30, 2018 |
|---|---|---|---|---|
| Accounts Receivable | General Operating | $ 48,318 | $ (7,038) | $ 41,280 |
| DACA Loan Program | General Operating | 2,339,686 | - | 2,339,686 |
| Direct Lending Participation Program | General Operating | 233,001 | (3,675) | 229,326 |
| Fire Truck Revolving Loan Program | Nonmajor | 18,009,260 | - | 18,009,260 |
| Ambulance Revolving Loan Program | Nonmajor | 1,378,640 | - | 1,378,640 |
| Local Government Financing Assistance Program | General Operating | 501,476 | - | 501,476 |
| Local Government Borrowing Program | General Operating | 10,071,037 | - | 10,071,037 |
| Loans with the Primary Government and Component Units of the State of Illinois | Other State of Illinois Debt | 932,925,497 | - | 932,925,497 |
| | | $ 965,506,915 | $ (10,713) | $ 965,496,202 |

## 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.

Activity related to guarantee receivables for the year ended June 30, 2018, consisted of the following:

| | Illinois Farmer Agribusiness Loan Guarantee Fund | Illinois Agricultural Loan Guarantee Fund | Total |
|---|---|---|---|
| Guarantee receivables - beginning of year | $ 223,224 | $ 170,902 | $ 394,126 |
| Receivables written off | (223,224) | (170,902) | (394,126) |
| Net receivables - end of year | $ - | $ - | $ - |

## 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. In August 2017, the Authority received authorization from the Attorney General to write off the remaining interest of $2,971,385.

## 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, 2018:

| | Due from | | |
|---|---|---|---|
| Funds | Major Funds | Nonmajor Funds | Description/Purpose |
| General Operating Fund | $ - | $ 208 | 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 | $ 208 | $ - | 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, 2018, were as follows:

| | Transfers from | | |
|---|---|---|---|
| Funds | Major Funds | Nonmajor Funds | Description/Purpose |
| General Operating Fund | $ 1,717,354 | $ - | Transer from Rural Development Revolving Loan Fund since program was discontinued and debt to the USDA was paid in full |
| General Operating Fund | 276,947 | - | Transfer from the Renewable Energy Development Fund since program was discontinued |
| Total | $ 1,994,301 | $ - | |

| | Transfers to | | |
|---|---|---|---|
| Funds | Major Funds | Nonmajor Funds | Description/Purpose |
| Rural Development Revolving Loan Fund | $ - | $ 1,717,354 | Transfer to the General Fund for excess program funds |
| Renewable Energy Development Fund | - | 276,947 | Transfer to the General Fund for excess program funds |
| Total | $ - | $ 1,994,301 | |

## Note 10. Capital Assets

Capital assets activity for the year ended June 30, 2018, was as follows:

| | Balance June 30, 2017 | Additions | Deletions | Balance June 30, 2018 |
|---|---|---|---|---|
| Capital assets being depreciated: | | | | |
| Furniture and equipment | $ 195,646 | $ - | $ - | $ 195,646 |
| Computers | 131,228 | 65,206 | 2,085 | 194,349 |
| Software | 287,799 | - | - | 287,799 |
| Total capital assets being depreciated | 614,673 | 65,206 | 2,085 | 677,794 |
| Less: Accumulated depreciation | | | | |
| Furniture and equipment | 190,862 | 1,534 | - | 192,396 |
| Computers | 128,033 | 8,710 | 2,085 | 134,658 |
| Software | 283,123 | 4,589 | - | 287,712 |
| Total accumulated depreciation | 602,018 | 14,833 | 2,085 | 614,766 |
| Capital assets, net of depreciation | $ 12,655 | $ 50,373 | $ - | $ 63,028 |

The Authority's records were reconciled to the records maintained by the Comptroller of the State of Illinois as of June 30, 2018.

## Note 11. Long-Term Obligations

*Revenue Bonds Payable*

The following schedule details the changes of all revenue bonds payable as of June 30, 2018:

| Revenue bonds payable: | Balance June 30, 2017 | Additions | (Retirements) | Balance June 30, 2018 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| Northern Illinois University Foundation | $ 1,697,488 | $ - | $ (598,392) | $ 1,099,096 | $ 360,295 |
| Illinois Environmental Protection Agency Clean Water Series 2013 | 77,320,000 | - | (19,545,000) | 57,775,000 | 17,410,000 |
| Illinois Environmental Protection Agency Clean Water Series 2016 | 500,000,000 | - | (23,685,000) | 476,315,000 | 28,575,000 |
| Illinois Environmental Protection Agency Clean Water Series 2017 | - | 560,025,000 | - | 560,025,000 | 18,700,000 |
| Illinois Medical District Commission Series 2006B | 14,050,000 | - | (14,050,000) | - | - |
| | $ 593,067,488 | $ 560,025,000 | $ (57,878,392) | $ 1,095,214,096 | $ 65,045,295 |

The future debt service requirements for revenue bonds as of June 30, 2018, including interest payments are as follows:

| Fiscal Year Ending June 30, | Total Outstanding Revenue Bonds Principal | Interest | Total |
|---|---|---|---|
| 2019 | $ 65,045,295 | $ 52,142,261 | $ 117,187,556 |
| 2020 | 68,621,082 | 49,077,624 | 117,698,706 |
| 2021 | 69,732,719 | 45,621,069 | 115,353,788 |
| 2022 | 67,875,000 | 42,179,500 | 110,054,500 |
| 2023 | 67,895,000 | 38,821,900 | 106,716,900 |
| 2024-2028 | 327,280,000 | 145,841,900 | 473,121,900 |
| 2029-2033 | 279,600,000 | 70,736,425 | 350,336,425 |
| 2034-2038 | 149,165,000 | 15,008,700 | 164,173,700 |
| | $ 1,095,214,096 | $ 459,429,379 | $ 1,554,643,475 |

## 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 2037. Principal and interest payments on the bonds are expected to require approximately 100% of these loan revenues. All bonds outstanding at June 30, 2018, 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.

<u>Moral Obligation</u> - 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. These bonds were repaid in Fiscal Year 2018.

<u>Component Units and Primary Government</u> - 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 2017 (Clean Water Initiative) – The original issue of $560,025,000 dated September 12, 2017, provides for serial retirement of principal beginning July 1, 2018, and every January 1 and July 1, thereafter, and interest payable on January 1 and July 1 of each year at rates of 5.00%. Final maturity is July 1, 2037.

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 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. In May 2018, the Illinois Medical District Commission redeemed all of the outstanding bonds.

## Note 11. Long-Term Obligations (Continued)

*Revenue Bonds Payable (Continued)*

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*

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

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

## Note 11. Long-Term Obligations (Continued)

*Revolving Loans (Continued)*

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

<u>Intermediary Relending Program</u> - The predecessor authorities (see Note 1) entered into loan agreements, which became 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 was collateralized by existing outstanding and future loans receivable of the IRP, and 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, were to be 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. In June 2018, the Authority discontinued this program and the related debt with the U.S. Department of Agriculture's Rural Development Administration was paid in full.

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

| | Balance, June 30, 2017 | Repayments | Balance, June 30, 2018 | Due Within One Year |
|---|---|---|---|---|
| Rural Development Revolving Loan | $ 248,512 | $ 248,512 | $ - | $ - |

## 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 2018, 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, 2018, is $3,213,991.

Previously defeased bonds in escrow as of June 30, 2018, are as follows:

| | Amount Defeased as of June 30, 2014 | Defeased Amount Outstanding to be Paid by Escrow |
|---|---|---|
| **Illinois Rural Bond Bank:** | | |
| 2009 A Bonds | $ 3,845,000 | $ 3,110,000 |

## Note 13. Lease Commitments

*Operating Leases*

Total rent expense for all three Illinois Finance Authority locations for the year ended June 30, 2018 was $119,479, including utilities.

<u>State of Illinois, Department of Central Management Services/Michael A. Bilandic Building</u> – 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, 2018, was $103,724.

<u>State of Illinois, Department of Commerce and Economic Opportunity</u> - 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.

<u>One Oaks</u> - The Authority entered into a rental lease agreement for office space for its Mount Vernon Office at 2929 Broadway, Suite #7B; Mount Vernon, Illinois 62864. The initial term of the lease expires on June 30, 2019. The lessee has the right to renew the lease for a further period of 60 months, at the rate in effect during the final month of the lease term, beginning in 2020. Annual base rent payments are approximately $12,155, with utilities charged per the rental agreement.

## Note 13. Lease Commitments (Continued)

*Operating Leases (Continued)*

Equipment Leases - The Authority entered into an equipment lease agreement. 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 $14,133, for the year ended June 30, 2018.

The future minimum lease commitments as of June 30, 2018, are as follows:

| Fiscal Year Ending June 30 | Amount |
|---|---|
| 2019 | $ 20,105 |
| 2020 | 5,773 |
| | $ 25,878 |

## Note 14. Commitments and Contingencies

*Current Federally Assisted Programs*

FmHA – Intermediary Relending Program

The Authority participated in the FmHA Intermediary Relending Program, a federally assisted program. In June 2018 the Authority discontinued this program. The demand deposits of $1,772,033 that were held in the Rural Development Revolving Loan Fund were transferred to the General Operating Fund. The related debt was paid off in June 2018, which released the restriction on these funds. See Note 11.

*Loan Guarantees*

The Authority has a contingent liability regarding the loan guarantees outstanding at June 30, 2018. 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. The Authority evaluates the guarantees annually to determine if it is more likely than not, greater than 50% likelihood, that the Authority will be required to make a payment on a guarantee. Based on the Authority's analysis of the guarantees outstanding at June 30, 2018, no liability is recorded as the recognition threshold was not met.

## 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, 2018 | | |
|---|---|---|---|
| | Illinois Agricultural Loan Guarantee Fund | Illinois Farmer Agribusiness Loan Guarantee Fund | Total |
| Cash Deposits | $ 10,277,223 | $ 8,059,401 | $ 18,336,624 |
| Maximum Outstanding Guarantees: | | | |
| State Guarantee Program for Restructuring Agricultural Debt | 3,934,187 | - | 3,934,187 |
| Specialized Livestock Loan Guarantee Program | - | 1,143,256 | 1,143,256 |
| Young Farmer Loan Guarantee Program | - | 561,903 | 561,903 |
| Farm Purchase Program | - | 846,314 | 846,314 |
| Total | $ 3,934,187 | $ 2,551,473 | $ 6,485,660 |

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 $11,574,482 at June 30, 2018.

## 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 2018 are:

| Year | Maximum Contribution | Age 50 Catch Up |
|---|---|---|
| 2018 | $18,500 | $24,500 |

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 2018 were $121,288 and $146,740, 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, 2018. The Authority is indebted with CMS in the amount of $13,059. This amount is a component of the amount reported as accounts payable in the Authority's General Operating Fund.

## Note 18. Subsequent Events

On June 4, 2018, the Governor of Illinois signed into law the Fiscal Year 2019 State budget, see HB 109 (Public Act 100-0586; effective date June 4, 2018 but some provisions effective July 1, 2018). 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.

**Note 18. Subsequent Events (Continued)**

On August 17, 2018, the Governor of Illinois signed into law SB 43 (Public Act 100-0919, effective immediately), which expanded the statutory purposes of the following locally-held Authority funds for participation loans and property assessed clean energy ("PACE") bridge loans: the Illinois Agricultural Loan Guarantee Fund (Fund #994); the Illinois Farmer and Agribusiness Loan Guarantee Fund (Fund #205); and Industrial Project Insurance Fund.

On August 19, 2018, the Governor of Illinois signed into law SB 2773 (Public Act 100-0980, effective on January 1, 2019), which enables the Authority to finance PACE projects.

On November 8, 2018, the U.S. Court of Appeals for the Ninth Circuit affirmed a preliminary injunction preventing rescission of the federal Deferred Action for Childhood Arrivals ("DACA") program, effective nationwide (see *Regents of the Univ. of Cal. v. United States Dep't of Homeland Sec.*, 2018 U.S. App. LEXIS 31688). This rescission was announced on September 5, 2017 by members of the United States executive branch, as described in the Subsequent Event section of the Authority's FY17 Financial Audit (Note 18). Subsequent litigation preserved DACA substantially as it was prior to the September 5, 2017 announcement as it related to existing DACA recipients. However, initial DACA applications cannot currently be filed. The Authority is currently evaluating the potential impact of these federal actions on the Authority's DACA loan activities.

On November 26, 2018, the Authority received a written request from an Illinois medical school to make DACA loans to students with DACA status ("DACA loans") enrolled at the school and to revise the DACA loan documents in light of changes in circumstances. The Authority has previously issued DACA loans to students enrolled at this medical school. The Authority anticipates making additional DACA loans up to the amount of $5,900,000, less the amount of DACA loans previously disbursed, to students with existing DACA loans and additional students, as authorized by Illinois Finance Authority Resolution No. 2018-0612-DA12.

On November 26, 2018, the Illinois Environmental Protection Agency articulated its desire for the Authority to issue an additional series of Illinois Finance Authority State of Illinois Clean Water Initiative Revolving Fund Revenue Bonds in the first six months of calendar year 2019. 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 2019 benefit the Illinois Environmental Protection Agency. Accordingly, in the audit period that will end June 30, 2019, the Authority anticipates increasing its balance sheet by the amount of the Series 2019 Bonds consistent with the GASB Interpretation No. 2 and the amount of the outstanding Illinois Clean Water Initiative Bonds, Series 2019.

On November 29, 2018, the Illinois Environmental Protection Agency reported to the Authority that it had approved the final disbursement of the net proceeds of the Illinois Finance Authority State of Illinois Clean Water Initiative Revolving Fund Revenue Bonds, Series 2017, meeting the 3-Year drawdown target as required by the Tax Increase Prevention and Reconciliation Act of 2005 ("TIPRA") on the outstanding Series 2017 Bonds. TIPRA imposes upon pooled bond issues a 95% drawdown requirement of net bond proceeds within three years of issuance.

## Supplementary Information

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

**Combining Statement of Net Position-Nonmajor Funds**
**June 30, 2018**

| | Industrial Project Insurance Fund | Locally Held Fire Truck Revolving Loan fund | Locally Held Ambulance Revolving Loan 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 | 278,237 | 900,994 | 714,253 |
| Investments | 10,631,599 | 4,655,121 | 2,177,480 |
| Receivables from pending investment sales | - | - | - |
| Securities lending collateral equity with the State Treasurer | - | - | - |
| Accrued interest receivable | 39,782 | 13,504 | 4,251 |
| Loans receivables, net | - | 1,743,081 | 269,320 |
| Total current restricted assets | 10,949,618 | 7,312,700 | 3,165,304 |
| Total current assets | 10,949,618 | 7,312,700 | 3,165,304 |
| Noncurrent assets: | | | |
| Noncurrent unrestricted assets: | | | |
| Investments | - | - | - |
| Total noncurrent unrestricted assets | - | - | - |
| Noncurrent restricted assets: | | | |
| Cash and cash equivalents | - | - | - |
| Investments | 664,646 | - | - |
| Accrued interest receivable | - | - | - |
| Loans receivables, net | - | 16,266,179 | 1,109,320 |
| Total noncurrent restricted assets | 664,646 | 16,266,179 | 1,109,320 |
| Total noncurrent assets | 664,646 | 16,266,179 | 1,109,320 |
| Total assets | 11,614,264 | 23,578,879 | 4,274,624 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | |
| Net loss on debt refundings | - | - | - |
| Total deferred outflows of resources | - | - | - |
| Total assets and deferred outflows of resources | 11,614,264 | 23,578,879 | 4,274,624 |

| 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 |
|---|---|---|---|---|---|---|
| $ - | $ - | $ - | $ 300,437 | $ - | $ - | $ 300,437 |
| - | - | - | 3,570,624 | - | - | 3,570,624 |
| - | - | - | 13,343 | - | - | 13,343 |
| - | - | - | - | - | - | - |
| - | - | - | 3,884,404 | - | - | 3,884,404 |
| - | - | - | - | - | 12,141 | 1,905,625 |
| - | - | - | - | - | - | 17,464,200 |
| - | - | - | - | - | - | - |
| 4,156,000 | 3,259,000 | - | - | - | - | 7,415,000 |
| - | - | - | - | - | - | 57,537 |
| - | - | - | - | - | - | 2,012,401 |
| 4,156,000 | 3,259,000 | - | - | - | 12,141 | 28,854,763 |
| 4,156,000 | 3,259,000 | - | 3,884,404 | - | 12,141 | 32,739,167 |
| - | - | - | 483,324 | - | - | 483,324 |
| - | - | - | 483,324 | - | - | 483,324 |
| 10,277,223 | 8,059,401 | - | - | - | - | 18,336,624 |
| - | - | - | - | - | - | 664,646 |
| 17,000 | 13,000 | - | - | - | - | 30,000 |
| - | - | - | - | - | - | 17,375,499 |
| 10,294,223 | 8,072,401 | - | - | - | - | 36,406,769 |
| 10,294,223 | 8,072,401 | - | 483,324 | - | - | 36,890,093 |
| 14,450,223 | 11,331,401 | - | 4,367,728 | - | 12,141 | 69,629,260 |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| 14,450,223 | 11,331,401 | - | 4,367,728 | - | 12,141 | 69,629,260 |

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

**Combining Statement of Net Position-Nonmajor Funds (Continued)**
**June 30, 2018**

| | Industrial Project Insurance Fund | Locally Held Fire Truck Revolving Loan fund | Locally Held Ambulance Revolving Loan 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 | 1,452 | 646 | 362 |
| 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 | 1,452 | 646 | 362 |
| Total current liabilities | 1,452 | 646 | 362 |
| 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 | 1,452 | 646 | 362 |
| **NET POSITION** | | | |
| Restricted for: | | | |
| Industrial revenue debt and agricultural guarantees | 11,612,812 | - | - |
| Public safety loans | - | 23,578,233 | 4,274,262 |
| Agricultural and rural development loans | - | - | - |
| Renewable energy development | - | - | - |
| Credit enhancement | - | - | - |
| Low income community investments | - | - | - |
| Unrestricted | - | - | - |
| Total net position | $ 11,612,812 | $ 23,578,233 | $ 4,274,262 |

| 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 |
|---|---|---|---|---|---|---|
| $ - | $ - | $ - | $ 546 | $ - | $ - | $ 546 |
| - | - | - | - | - | - | - |
| - | - | - | 546 | - | - | 546 |
| - | - | - | - | - | - | 2,460 |
| - | - | - | - | - | 208 | 208 |
| 4,156,000 | 3,259,000 | - | - | - | - | 7,415,000 |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| 4,156,000 | 3,259,000 | - | - | - | 208 | 7,417,668 |
| 4,156,000 | 3,259,000 | - | 546 | - | 208 | 7,418,214 |
| - | - | | - | - | - | - |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| 4,156,000 | 3,259,000 | - | 546 | - | 208 | 7,418,214 |
| - | - | - | - | - | - | 11,612,812 |
| - | - | - | - | - | - | 27,852,495 |
| 10,294,223 | 8,072,401 | - | - | - | - | 18,366,624 |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| - | - | - | - | - | 11,933 | 11,933 |
| - | - | - | 4,367,182 | - | - | 4,367,182 |
| $ 10,294,223 | $ 8,072,401 | $ - | $ 4,367,182 | $ - | $ 11,933 | $ 62,211,046 |

**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, 2018**

| | Industrial Project Insurance Fund | Locally Held Fire Truck Revolving Loan Fund | Locally Held Ambulance Revolving Loan Fund |
|---|---|---|---|
| Operating revenues: | | | |
| Closing fees | $ - | $ - | $ - |
| Miscellaneous fees | - | - | - |
| Interest income - loans | - | 13,279 | 2,852 |
| Other revenue | - | - | - |
| Total operating revenue | - | 13,279 | 2,852 |
| Operating expenses: | | | |
| Professional services | 7,758 | 3,714 | 3,335 |
| General and administrative | - | - | - |
| Interest expense | - | - | - |
| Total operating expenses | 7,758 | 3,714 | 3,335 |
| Operating income (loss) | (7,758) | 9,565 | (483) |
| Nonoperating revenues (expenses): | | | |
| Transfer of funds and interest in program from the State of Illinois | - | 447,207 | - |
| Transfer of interest in program to Illinois Clean Energy | - | - | - |
| Interest and investment income | 138,966 | 67,796 | 39,109 |
| Other | - | - | - |
| Total nonoperating revenues (expenses) | 138,966 | 515,003 | 39,109 |
| Net income (loss) before transfers | 131,208 | 524,568 | 38,626 |
| Transfers: | | | |
| Transfers in (out) to other funds | - | - | - |
| Total transfers in (out) | - | - | - |
| Change in net position | 131,208 | 524,568 | 38,626 |
| Net position - beginning of year | 11,481,604 | 23,053,665 | 4,235,636 |
| Net position - end of year | $ 11,612,812 | $ 23,578,233 | $ 4,274,262 |

| Illinois Agricultural Loan Guarantee Fund | Illinois Farmer Agribusiness Loan Guarantee Fund | Rural Development Revolving Loan Fund | Illinois Housing Partnership Program Fund | Renewable Energy Development Fund | Illinois Finance Authority Development Not-for-Profit Fund | Total Nonmajor Funds |
|---|---|---|---|---|---|---|
| $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| - | - | 213 | - | - | - | 213 |
| - | - | 8,929 | - | 1,821 | - | 26,881 |
| - | - | - | - | - | | - |
| - | - | 9,142 | - | 1,821 | - | 27,094 |
| - | - | - | 4,174 | 2,795 | 681 | 22,457 |
| - | - | - | - | - | 39 | 39 |
| - | - | 1,839 | - | - | - | 1,839 |
| - | - | 1,839 | 4,174 | 2,795 | 720 | 24,335 |
| - | - | 7,303 | (4,174) | (974) | (720) | 2,759 |
| - | - | - | - | - | - | 447,207 |
| - | - | - | - | (2,000,000) | - | (2,000,000) |
| 161,330 | 126,183 | 11,649 | 48,020 | 16,403 | - | 609,456 |
| - | - | - | - | - | - | - |
| 161,330 | 126,183 | 11,649 | 48,020 | (1,983,597) | - | (943,337) |
| 161,330 | 126,183 | 18,952 | 43,846 | (1,984,571) | (720) | (940,578) |
| - | - | (1,717,354) | - | (276,947) | - | (1,994,301) |
| - | - | (1,717,354) | - | (276,947) | - | (1,994,301) |
| 161,330 | 126,183 | (1,698,402) | 43,846 | (2,261,518) | (720) | (2,934,879) |
| 10,132,893 | 7,946,218 | 1,698,402 | 4,323,336 | 2,261,518 | 12,653 | 65,145,925 |
| $ 10,294,223 | $ 8,072,401 | $ - | $ 4,367,182 | $ - | $ 11,933 | $ 62,211,046 |

**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, 2018**

| | Industrial Project Insurance Fund | Locally Held Fire Truck Revolving Loan Fund | Locally Held Ambulance Revolving Loan Fund |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Cash received for fees and other | $ - | $ - | $ - |
| Cash payments to suppliers for goods and services | (7,702) | (3,370) | (3,294) |
| Net cash provided by (used in) operating activities | (7,702) | (3,370) | (3,294) |
| Cash flows from noncapital financing activities: | | | |
| Bonds and notes principal payments | - | - | - |
| Interest payments | - | - | - |
| Permanent capital transfer from State | - | 447,207 | - |
| Transfer of interest in program to Illinois Clean Energy | - | - | - |
| Due from other funds | - | - | - |
| Due to other funds | - | - | - |
| Transfers from other funds | - | - | - |
| Transfers to other funds | - | - | - |
| Net cash provided by (used in) noncapital financing activities | - | 447,207 | - |
| Cash flows from investing activities: | | | |
| Purchase of investments | (11,562,309) | (10,036,340) | (7,756,200) |
| Sales and maturities of investments | 11,095,687 | 7,517,554 | 7,406,671 |
| Cash received on loan receivables and guarantees | - | 1,996,091 | 294,320 |
| Cash received for interest on loans | - | 14,311 | 2,852 |
| Cash payments on loan receivables and guarantees | - | - | - |
| Interest and dividends on investments | 126,119 | 49,242 | 26,630 |
| Net cash provided by (used in) investing activities | (340,503) | (459,142) | (25,727) |
| Net increase (decrease) in cash and cash equivalents | (348,205) | (15,305) | (29,021) |
| Cash and cash equivalents - beginning of year | 626,442 | 916,299 | 743,274 |
| Cash and cash equivalents - end of year | $ 278,237 | $ 900,994 | $ 714,253 |
| Reconciliation of operating income (loss) to net cash provided by (used in) operating activities: | | | |
| Operating income (loss) | $ (7,758) | $ 9,565 | $ (483) |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities: | | | |
| Interest on loans | - | (13,279) | (2,852) |
| Interest expense | - | - | - |
| Changes in assets and liabilities: | | | |
| Accounts payable | 56 | 344 | 41 |
| Net cash provided by (used in) operating activities | $ (7,702) | $ (3,370) | $ (3,294) |

Noncash investing, capital, and financing activities:

As a result of the defeasance of all the outstanding bonds issued under the Illinois Rural Bond Bank Program, the Authority transferred all the remaining assets and liabilities in the Illinois Rural Bond Bank Special Reserve Fund to the Local Government Borrowing Fund (a sub-fund of the General Operating Fund) on September 30, 2014.

| Illinois Agricultural Loan Guarantee Fund | Illinois Farmer Agribusiness Loan Guarantee Fund | Rural Development Revolving Loan Fund | Illinois Housing Partnership Program Fund | Renewable Energy Development Fund | Illinois Finance Authority Development Not-for-Profit Fund | Total Nonmajor Funds |
|---|---|---|---|---|---|---|
| $ - | $ - | $ 213 | $ - | $ - | $ - | $ 213 |
| - | - | - | (4,168) | (2,923) | (720) | (22,177) |
| - | - | 213 | (4,168) | (2,923) | (720) | (21,964) |
| | | | | | | |
| - | - | (248,512) | - | - | - | (248,512) |
| - | - | (3,491) | - | - | - | (3,491) |
| - | - | - | - | - | - | 447,207 |
| - | - | - | - | (2,000,000) | - | (2,000,000) |
| - | - | - | - | - | - | - |
| - | - | - | - | - | 39 | 39 |
| - | - | - | - | - | - | - |
| - | - | (1,586,718) | - | (276,947) | - | (1,863,665) |
| - | - | (1,838,721) | - | (2,276,947) | 39 | (3,668,422) |
| | | | | | | |
| - | - | - | (3,837,464) | (2,713,820) | - | (35,906,133) |
| - | - | - | 4,041,494 | 3,717,884 | - | 33,779,290 |
| - | - | 23,071 | - | 1,107,839 | - | 3,421,321 |
| - | - | 12,589 | - | 1,881 | - | 31,633 |
| - | - | - | - | - | - | - |
| 147,593 | 115,742 | 11,650 | 49,288 | 28,874 | - | 555,138 |
| 147,593 | 115,742 | 47,310 | 253,318 | 2,142,658 | - | 1,881,249 |
| 147,593 | 115,742 | (1,791,198) | 249,150 | (137,212) | (681) | (1,809,137) |
| 10,129,630 | 7,943,659 | 1,791,198 | 51,287 | 137,212 | 12,822 | 22,351,823 |
| $ 10,277,223 | $ 8,059,401 | $ - | $ 300,437 | $ - | $ 12,141 | $ 20,542,686 |
| | | | | | | |
| $ - | $ - | $ 7,303 | $ (4,174) | $ (974) | $ (720) | $ 2,759 |
| | | | | | | |
| - | - | (8,929) | - | (1,821) | - | (26,881) |
| - | - | 1,839 | - | - | - | 1,839 |
| | | | | | | |
| - | - | - | 6 | (128) | - | 319 |
| $ - | $ - | $ 213 | $ (4,168) | $ (2,923) | $ (720) | $ (21,964) |

RSM US LLP

**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, 2018, 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 14, 2018.

**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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State of Illinois, Illinois Finance Authority's internal control. 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**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*.

**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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**SIGNED ORIGINAL ON FILE**

Schaumburg, Illinois
December 14, 2018

**Prior Finding Not Repeated**
**For the Year Ended June 30, 2018**

## *Government Auditing Standards*

### Failure to Reconcile and Record Cash Received

The Illinois Finance Authority ("Authority") did not reconcile and record cash of $36,411 received in a bank account pertaining to fiscal year 2018 interest income received in advance from local governments in fiscal year 2017. (Finding Code No. 2017-001).

Status: Not Repeated

The Authority materially reconciled and recorded the balances of its bank accounts as of June 30, 2018.