STATE OF ILLINOIS
EAST ST. LOUIS FINANCIAL ADVISORY AUTHORITY

FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 2012

COMPLIANCE EXAMINATION
FOR THE TWO YEARS ENDED JUNE 30, 2012

PERFORMED AS SPECIAL ASSISTANT AUDITORS
FOR THE AUDITOR GENERAL, STATE OF ILLINOIS

State of Illinois—East St. Louis Financial Advisory Authority
Financial Audit and Compliance Examination
For the Two Years Ended June 30, 2012
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Administration

Executive Director until May 31, 2011	Ms. Patrice R. Rencher
Interim Financial Manager	
(November 1, 2011 – February 28, 2012)	Ms. Jennifer Wilson
Financial Manager	
(March 1, 2012 – Present)	Ms. Jennifer Wilson
Budget Analyst	
(February 17, 2009 – February 28, 2011)	Mr. Brandon Drake
(March 1, 2011 – February 13, 2012)	VACANT
(February 14, 2012 – Present)	Mr. Brandon Drake
Legal Counsel	Mr. Robert Bassett

Authority office is located at:

Kenneth Hall State Regional Office Building
10 Collinsville Avenue
Suite 202
East St. Louis, Illinois 62201

EAST ST. LOUIS
FINANCIAL ADVISORY AUTHORITY
(An Agency of the State of Illinois)

January 22, 2013

Schorb & Schmersahl, LLC
518 North Main Street
Columbia, IL 62236

Ladies and Gentlemen:

We are responsible for the identification of, and compliance with, all respects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the Agency. We are responsible for and we have established and maintained an effective system of internal controls over compliance requirements. We have performed an evaluation of the Agency's compliance with the following assertions during the two-year period ended June 30, 2012. Based on this evaluation, we assert that during the years ended June 30, 2011 and June 30, 2012, the Agency has materially complied with the assertions below.

A. The agency has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.

B. The agency has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions, or mandatory directions imposed by law upon such obligation, expenditure, receipt, or use.

C. The agency has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.

D. State revenues and receipts collected by the agency are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate, and in accordance with law.

E. Money or negotiable securities or similar assets handled by the agency on behalf of the State or held in trust by the agency have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

Yours very truly,

East St. Louis Financial Advisory Authority

Jennifer Wilson
Financial Manager

Kenneth Hall Regional State Office Building • 10 Collinsville Avenue • Room 202 • East St. Louis, Illinois 62201
Office: (618) 583-2070 • Fax: (618) 583-2072 • www.eslfinancialadvisoryauthority.org

The compliance testing performed during this examination was conducted in accordance with *Government Auditing Standards* and in accordance with the Illinois State Auditing Act.

ACCOUNTANTS' REPORTS

The Independent Accountants' Report on State Compliance on Internal Control Over Compliance does not contain scope limitations, disclaimers, or other significant non-standard language.

SUMMARY OF FINDINGS

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Findings	7	12
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SCHEDULE OF FINDINGS

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G	24	Locally Held Funds in Excess of Federally Insured Limits

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with Authority personnel at an exit conference on January 10, 2013. Attending were:

East St. Louis Financial Advisory Authority

Jennifer Wilson	Financial Manager
Brandon Drake	Budget Analyst

Office of the Auditor General

Adam Ausmus	Audit Manager

Schorb & Schmersahl, LLC

James R. Schmersahl	Audit Partner
Maureen E. Downs	Audit Supervisor

Responses to the recommendations were provided by Jennifer Wilson in a letter dated January 22, 2013.

§ SCHORB & SCHMERSAHL, LLC
Certified Public Accountants

JAMES R. SCHMERSAHL, CPA

ROGER G. TOENNIES, CPA
STEVEN M. TRIPI, CPA
ROGER A. MATHEWS, CPA
KIM PFEIFFER, CPA

INDEPENDENT ACCOUNTANTS' REPORT ON STATE COMPLIANCE AND ON INTERNAL CONTROL OVER COMPLIANCE

Honorable William G. Holland
Auditor General
State of Illinois

Board of Directors
East St. Louis Financial Advisory Authority
East St. Louis, Illinois

Compliance

As Special Assistant Auditors for the Auditor General, we have examined the State of Illinois – East St. Louis Financial Advisory Authority's (the "Authority") compliance with the requirements listed below, as more fully described in the Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide) as adopted by the Auditor General, during the two years ended June 30, 2012. The management of the Authority is responsible for compliance with these requirements. Our responsibility is to express an opinion on the Authority's compliance based on our examination.

A. The Authority has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.

B. The Authority has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.

C. The Authority has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.

D. State revenues and receipts collected by the Authority are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.

E. Money or negotiable securities or similar assets handled by the Authority on behalf of the State or held in trust by the Authority have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with the law.

518 North Main Street • Columbia, Illinois 62236 • 618-281-5195 • Fax 618-281-6101 • cpa@htc.net

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act); and the Audit Guide as adopted by the Auditor General pursuant to the Act; and, accordingly, included examining, on a test basis, evidence about the Authority's compliance with those requirements listed in the first paragraph of this report and performing such other procedures as we considered necessary in the circumstances.

We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Authority's compliance with specified requirements.

In our opinion, the Authority complied, in all material respects, with the compliance requirements listed in the first paragraph of this report during the two years ended June 30, 2012. However, the results of our procedures disclosed instances of noncompliance, which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of findings as Finding Code No.'s 12-1, 12-2, 12-3, 12-4, 12-5, 12-6, and 12-7.

Internal Control

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements listed in the first paragraph of this report. In planning and performing our examination, we considered the Authority's internal control over compliance with the requirements listed in the first paragraph of this report as a basis for designing our examination procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Audit Guide issued by the Illinois Office of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A *deficiency in an entity's internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with the requirements listed in the first paragraph of this report on a timely basis. A *material weakness in an entity's internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a requirement listed in the first paragraph of this report will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we considered to be significant deficiencies as described in the accompanying schedule of findings as items Finding Code No.'s 12-1, 12-2, 12-3, 12-4, 12-5, 12-6, and 12-7. A significant deficiency in an entity's internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

As required by the Audit Guide, immaterial findings excluded from this report have been reported in a separate letter to your office.

The Authority's responses to the findings identified in our examination are described in the accompanying schedule of findings. We did not examine the Authority's responses and, accordingly, we express no opinion on the responses.

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

Schorb & Schmersahl, LLC

Columbia, Illinois
January 22, 2013

§ SCHORB & SCHMERSAHL, LLC
Certified Public Accountants

JAMES R. SCHMERSAHL, CPA

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KIM PFEIFFER, CPA

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 William G. Holland
Auditor General
State of Illinois

Board of Directors
East St. Louis Financial Advisory Authority
East St. Louis, Illinois

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Illinois—East St. Louis Financial Advisory Authority (the "Authority"), as of and for the year ended June 30, 2012, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated January 22, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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 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.

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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as described above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings as item 12-1 that we consider to be a significant deficiency in internal control over financial reporting. 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.

Compliance and Other Matters

As a part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings as item 12-1.

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Authority's responses and, accordingly, we express no opinion on the responses.

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

Schorb & Schmersahl, LLC

Columbia, Illinois
January 22, 2013

12-1 FINDING Inadequate Segregation of Duties

The East St. Louis Financial Advisory Authority ("Authority") lacks adequate segregation of duties in its accounting and financial procedures.

In the beginning of the audit cycle, the Authority had three employees and, at times during the audit period, had only one employee. At June 30, 2012, the Authority has two employees. Because of the limited number of personnel, the Authority's cash and investment receipts and disbursement procedures often require that one individual be responsible for duties that should be performed by at least two people. Specifically we noted approvals for expenditures paid directly to the Head of the Agency are approved by the Head of the Agency. The approval by the Board of Directors occurs after the expenditure has already taken place.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) states that all state agencies shall establish and maintain a system, or systems, of internal fiscal and administrative controls which safeguarded against waste, loss, unauthorized use, and misappropriation.

Authority personnel indicated that achieving adequate segregation of duties is extremely difficult because the utilization of additional personnel is not a viable option due to limited appropriations.

A lack of adequate segregation of duties increases the likelihood that an improper expenditure, error, irregularity, or misappropriation of funds could occur and would not be found in the normal course of business. (Finding Code No. 12-1, 10-5, 08-2, 06-3)

RECOMMENDATION

We recommend that a member of the Board of Directors approve all transactions that are incurred by the Head of the Agency. Payroll should be reviewed (and evidence of that review should be explicit) immediately following any payroll change and randomly (but regularly) examined subsequent to that date. All expenditures of reimbursement to the Head of the Agency should be reviewed prior to the expenditure by a member of the Board of Directors and approval should be explicit on the voucher.

AUTHORITY RESPONSE

The Authority agrees with the recommendation. Because of the limited number of personnel, it is difficult to adequately segregate the duties in our accounting and financial procedures. The Agency Head temporarily assumed the responsibility of approving operating expenditures during the period when the Authority had only one employee. Currently, expenditures paid to the Head of the Agency are reviewed and signed by two individuals, the agency's Receiving Officer and the Head of the Unit/Authorized Agent, which is noted on agency vouchers.

The Authority will make provisions for the Board of Directors to review and approve expenditures of reimbursement to the Head of the Agency prior to the expenditure. Payroll will also be reviewed following any payroll change and randomly (but regularly) examined.

12-2 FINDING Contracts Not in Compliance with Illinois Municipal Code

Contracts entered into by the City of East St. Louis and approved by the East St. Louis Financial Advisory Authority ("Authority") do not include provisions as mandated by the Illinois Municipal Code (65 ILCS 5/8-12-17).

During our review of contracts, we noted:

- Six out of 25 contracts tested (24%) did not include the provision regarding the binding effect of the contract, and
- Nine out of 25 contracts tested (36%) did not include the provision regarding conditional approval subject to budget limitations. In the Authority's resolution approving the contracts, the Authority consistently approved the contract subject to a condition that the contractor acknowledges "that the obligations of the City to make payments under this contract are specifically conditioned and limited to funds established for the purpose in the budget, which has been duly adopted by the City Council and approved by the East St. Louis Financial Advisory Authority." There is no evidence that the contractors accepted the conditions of approval.

According to the Illinois Municipal Code (65 ILCS 5/8-12-17), "Each contract or other obligation that is entered into by the financially distressed city and that requires approval by the Authority shall contain a provision stating (i) that it shall not become legally binding on the city unless and until it has received approval of the Authority, and (ii) that the Authority shall approve the contract if, in the Authority's judgment, the information required to be submitted is complete with respect to the contract or other obligation being an authorized expenditure with the Financial Plan and Budget and the contract or other obligation is consistent with the Financial Plan and Budget in effect."

In the prior audit period, the Authority was not aware that attaching the resolutions to the contract was not sufficient to satisfy this Section of the Illinois Municipal Code. All six of the contracts not including the provision regarding the binding effect and eight out of the nine contracts not including the provision regarding conditional approval subject to budget limitations were approved by the Authority prior to the findings being discussed with the Authority.

Without the necessary provisions written into the contracts and agreed by the City and the contractor, as documented by the appropriate signatures, the contracts may have a binding effect even though the City does not have the authority to enter into contracts without the approval of the Authority. (Finding Code No. 12-2, 10-7)

RECOMMENDATION

We continue to recommend the Authority communicate with the City that the provisions mandated in the Illinois Municipal Code be written into all contracts entered into by the City and subject to the approval of the Authority. We also continue to recommend that the Authority cease approving contracts that lack the mandatory provisions.

12-2 FINDING Contracts Not in Compliance with Illinois Municipal Code *(Continued)*

AUTHORITY RESPONSE

The Authority agrees with the recommendation. All six of the contracts not including the provision regarding the binding effect and eight out of the nine contracts not including the provision regarding conditional approval subject to budget limitations were approved by the Authority prior to the finding being discussed with the Authority during the audit period.

The Authority began communicating to the City that the provisions mandated in the Illinois Municipal Code will be written in all contracts subject to the approval of the Authority in a letter dated November 23, 2010. The Authority will continue to communicate with the City regarding the provisions mandated in the Illinois Municipal Code and approve the contracts that include the mandatory provisions.

12-3 FINDING Open Meetings Act

The East St. Louis Financial Advisory Authority ("Authority") did not comply with all provisions in the Open Meetings Act including taking action while in closed session and obtaining appropriate training in compliance with the Act.

During the two year period, the Authority held 25 regular meetings and maintained the written and audio documentation. However, the Authority inappropriately voted on action while in closed session at four of the twenty five meetings (16%). The Authority failed to designate an individual to be responsible for compliance with the Open Meetings Act and did not receive the required annual training for fiscal year 2011.

The Open Meetings Act (5 ILCS 120/1.05(a)) states "Every public body shall designate employees, officers, or members to receive training on compliance with this Act. Each public body shall submit a list of designated employees, officers, or members to the Public Access Counselor. Within six months after the effective date of this amendatory Act of the 96th General Assembly, the designated employees, officers, and members must successfully complete an electronic training curriculum, developed and administered by the Public Access Counselor, and thereafter must successfully complete an annual training program. Thereafter, whenever a public body designates an additional employee, officer, or member to receive this training, that person must successfully complete the electronic training curriculum within 30 days after that designation."

The Open Meetings Act (5 ICLS 120/2(e)) states "No final action may be taken at a closed meeting. Final action shall be preceded by a public recital of the nature of the matter being considered and other information that will inform the public of the business being conducted."

The Authority stated a lack of awareness of certain requirements of the statute as the cause of this oversight.

Noncompliance with the Open Meetings Act is a violation of State statute. (Finding Code No. 12-3, 10-10)

RECOMMENDATION

We recommend that the Authority staff receive training on the Open Meetings Act, noting that actions are not to be taken in closed session. We also recommend a semi-annual review of closed session meetings to determine when they should be made available to the public because it is no longer necessary to protect the public interest or the privacy of an individual by keeping them confidential.

12-3 FINDING Open Meetings Act *(Continued)*

AUTHORITY RESPONSE

The Authority agrees with the recommendation. Authority staff met the annual training requirement for fiscal year 2012 and will continue to receive training on the Open Meetings Act. The Authority will also segregate the minutes of the closed session meetings from the open meetings and conduct a periodic review of closed session meetings to determine when they should be made available to the public.

12-4 FINDING Inadequate Contract Provisions

The East St. Louis Financial Advisory Authority ("Authority") contracts did not contain the required provisions.

The Authority entered into four contracts during the audit period. Three of the contracts were for legal services on an hourly basis for $165 per hour. Total legal fees expended under the legal contracts was $4,016 and $14,047 for the years ended June 30, 2012 and 2011, respectively. The fourth contract was for professional accounting services at a rate of $375 per month. The Authority expended $750 under the professional accounting services contract during the year ended June 30, 2012. Four of the 4 contracts (100%) did not contain certain provisions as required by statute. Specifically the contracts did not contain the following provisions:

One out of four (25%) did not contain:

- Appropriation Contingency Clause as required by 30 ILCS 500/20-60(b). The Act states, "Subject to appropriation. All contracts made or entered into shall recite that they are subject to termination and cancellation in any year for which the General Assembly fails to make an appropriation to make payments under the terms of this contract."
- Drug free workplace certification as required by 30 ILCS 580. This Act requires the employer to provide a drug free workplace and for the employer and employees not to engage in unlawful manufacturing, distribution, dispensation, possession or use of a controlled substance during the performance of the contract.
- State Board of Elections Certification as required by 30 ILCS 500/20-160(b). The Act states "every bid submitted to and every contract executed by the State on or after January 1, 2009 (the effective date of Public Act 95-971) shall contain (1) certification by the bidder or contractor that either (i) the bidder or contractor is not required to register as a business entity with the State Board of Elections pursuant to this Section or (ii) the bidder or contractor has registered as a business entity with the State Board of Elections and acknowledges a continuing duty to update the registration and (2) a statement that the contract is voidable under Section 50-60 for the bidder's or contractor's failure to comply with this Section."
- Access to and right to audit records as required by 30 ILCS 500/20-65(b). This Act states that every contract or subcontract shall provide that all books and records required to be maintained shall be available for review and audit by the Auditor General, chief procurement officer, internal auditor, and the purchasing agency. Every contract and subcontract shall require the contractor to cooperate fully with any audit.
- Contractor's /Lessor's Federal Taxpayer Identification Number (Illinois Administrative Code: Title 74, Section 290.1203(h))
- Legal name of the Authority (Illinois Administrative Code: Title 74, Section 290.1203)

12-4 FINDING Inadequate Contract Provisions *(Continued)*

All four contracts (100%) failed to include the following provisions which applies to the subsections numbered below. This provision has become required with by Public Acts 96-0795 and 96-0920 (effective 7/1/10):

- "Every bid submitted to and contract executed by the State and every subcontract subject to Section 20-120 of the Illinois Procurement Code (30 ILCS 500) shall contain a certification by the bidder, contractor, or subcontractor, respectively, that the bidder, contractor, or subcontractor is not barred from being awarded a contract or subcontract under this Section and acknowledges that the contracting State agency may declare the related contract void if any of the certifications completed pursuant to this subsection are false." These subsections are as follows:
  - Bribery Clause as required by 30 ILCS 500/50-5(d)
  - Debt Delinquency Certification as required by 30 ILCS 500/50-11(b)
  - Environment Protection Act as required by 30 ILCS 500/50-14(c)
  - Prohibited Bidders and Contractors Certification as required by 30 ILCS 500/50-10-5(b)
  - Illinois Use Tax Certification as required by 30 ILCS 500/50-12(b)
  - Felons Certification as required by 30 ILCS 500/50-10(b)
  - Subcontractor Disclosure as required by 30 ILCS 500/35-40
  - Subcontractor Utilization Statement applicable to all contracts as required by 30 ILCS 500/20-120(a).

All four contracts also failed to include the Legal Status Disclosure Certification (Illinois Administrative Code: Title 74, Section 290.1203(h)).

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) states that all state agencies establish and maintain a system or systems of internal fiscal and administrative controls which shall provide assurance that funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation.

Authority officials stated they were not aware of the statutory requirements made by Public Acts 96-0795 and 96-0920.

A lack of internal controls increases the likelihood that an improper expenditure error, irregularity, or misappropriation of funds could occur and would not be detected in the normal course of business. (Finding Code No. 12-4, 10-11)

RECOMMENDATION

We recommend the Authority implement controls to ensure compliance with applicable statutes and regulations as they are enacted.

12-4 FINDING Inadequate Contract Provisions *(Continued)*

AUTHORITY RESPONSE

The Authority agrees with the recommendation. The contract that did not contain the Appropriation Contingency Clause, Drug Free Workplace Certification, and State Board of Elections Certification was entered into prior to the audit period as it is renewed each calendar year. Upon commencement of the 2011 calendar year, the Authority renewed the contract and incorporated the aforementioned provisions that were not previously included in the contract. All other contracts entered into during the audit period contained the Appropriation Contingency Clause, Drug Free Workplace Certification, and State Board of Elections Certification; while one other contract entered into during the audit period did not contain the Access to and Right to Audit Records Clause, the Contractor's/Lessor's Federal Taxpayer Identification Number, and the Legal Name of the Authority.

However, the Authority will implement controls to ensure compliance with applicable statutes and regulations as they are enacted.

12-5 FINDING Vacation Payout

The East St. Louis Financial Advisory Authority ("Authority") did not follow the State statute regarding repayment of vacation and sick leave.

On May 31st, 2011, an employee was laid off. Upon termination, this employee received a single lump sum payment of the remaining accrued vacation leave. On June 13th, 2011, this employee returned to the Agency. Because this employee was rehired within 30 days of termination, this lump sum should have been repaid.

The State Finance Act (30 ILCS 105/14a(c)) requires that "upon the retirement or resignation of a State employee from State service, his or her accrued vacation, overtime, and qualifying sick leave shall be payable to the employee in a single lump sum payment. However, if the employee returns to employment in any capacity with the same agency or department within 30 days of the termination of his or her previous State employment, the employee must, as a condition of his or her new State employment, repay the lump sum amount within 30 days after his or her new State employment commences."

Authority personnel stated they were unaware of the requirements of this statute.

Noncompliance with the State Finance Act is a violation of State statute. (Finding Code No. 12-5)

RECOMMENDATION

We recommend the Authority seek reimbursement from the employee for the lump sum amount. We further recommend the Authority implement internal controls and policies that reflect current State statutes regarding the termination and subsequent rehire of individuals.

AUTHORITY RESPONSE

The Authority agrees with the recommendation. The Authority will seek reimbursement from the employee for the lump sum payment amount of the remaining accrued vacation, as they were unaware of the requirements of this statute.

12-6 FINDING Noncompliance with Illinois Municipal Code

The East St. Louis Financial Advisory Authority ("Authority")'s Board of Directors does not have the required number of members.

On August 5, 2010 the Governor appointed three new Directors to the Authority's Board of Directors and renewed the term of one member. Three of the four newly appointed Directors had a term of one year, ending August 30, 2011. The Chairperson has a three year term ending August 30, 2013. At June 30, 2012, the Board of Directors consisted of four individuals, including a Chairperson. The three Directors are all currently serving on expired terms.

The Illinois Municipal Code (65 ILCS 5/8-12-7) states that the Governing body of the Authority shall be a board consisting of five Directors. Directors shall be appointed by the Governor, with the advice and consent of the Senate. The Governor shall select one of the Directors to serve as Chairperson during the term of his or her appointment. In addition, Section (65 ILCS 5/8-12-9) requires the chairperson to preside at meetings of the Directors.

The Illinois Municipal Code (65 ILCS 5/8-12-8) states that Directors appointed after the initial Director shall hold office for a term of three years.

Authority officials state they have contacted the Office of the Governor regarding appointment of the unfilled position and the reappointment of Directors with expired terms. Authority officials indicated they do not have authority to appoint Directors.

Noncompliance with the Illinois Municipal Code is a violation of State mandate. (Finding Code No. 12-6, 10-12, 08-4, 06-7)

RECOMMENDATION

We recommend the Authority continue to request Board appointments from the Office of the Governor for those terms that expired on August 30, 2011 and for the one vacant Director position.

AUTHORITY RESPONSE

The Authority agrees with the recommendation and will continue to request Board appointments from the Office of the Governor for those terms that expired on August 30, 2011 and for the one vacant Director position.

12-7 FINDING Failure to Comply with the Identity Protection Act

East St. Louis Financial Advisory Authority ("Authority") failed to implement the provisions of the Identity Protection Act ("Act").

The Identity Protection Act (5 ILCS 179) required the Authority to draft and approve an identity-protection policy by June 1, 2011. Per the Act, the Policy must:

- Identify the Act.
- Require all employees identified as having access to social security numbers in the course of performing their duties to be trained to protect the confidentiality of social security numbers.
- Direct that only employees who are required to use or handle information or documents that contain social security numbers have access to such information or documents.
- Require that social security numbers requested from an individual be placed in a manner that makes the social security number easily redacted if required to be released as part of a public records request.
- Require that, when collecting a social security number or upon request by the individual, a statement of the purpose or purposes for which the agency is collecting and using the social security number be provided.

During our testing we noted that the Authority had not issued an identity-protection policy.

The Authority was unaware of the issuance of the Identity Protection Act.

Failure to implement provisions of the Act results in noncompliance with the Act, does not promote the security and control of social security numbers, and increases the likelihood of identity theft. (Finding Code No. 12-7)

RECOMMENDATION

We recommend the Authority develop and approve an identity protection policy as required in the Identity Protection Act.

AUTHORITY RESPONSE

The Authority agrees with the recommendation. The Authority will develop and approve an identity protection policy as required in the Identity Protection Act.

A. Inappropriate Expenditure of Funds

FINDING
During the prior period, the Authority inappropriately expended funds from locally held funds for the expenses of its daily operations.

During the current audit period, our testing did not disclose any inappropriate expenditures.

STATUS
Not Repeated (Finding Code No. 10-1)

B. Inappropriate Severance Payments

FINDING
During the prior period, the Board of Directors for the Authority inappropriately paid the Executive Director $55,976 for "breach" of employment contract.

During the current audit period, our testing did not disclose any severance payments.

STATUS
Not Repeated (Finding Code No. 10-2)

C. Inadequate Reconciliation of Investment Statements to General Ledger

FINDING
During the prior period, the Authority inadequately reconciled the investment statements to the general ledger because the Authority had failed to update its accounting records to reflect the monthly change in fair market value.

During the current period audit, we noted the investment statements were reconciled to the general ledger on a timely basis.

STATUS
Not Repeated (Finding Code No. 10-3)

D. Inadequate Controls over Financial Reporting

FINDING
During the prior period, the Authority did not ensure financial records used to prepare the year-end financial statements and the Office of the Comptroller Generally Accepted Accounting Principles (GAAP) packages were accurate.

During the current period audit, we noted that the appropriate financial information was used to prepare financial statements for the 2011 and 2012 fiscal years.

STATUS
Not Repeated (Finding Code No. 10-4)

E. Lack of Expenditure Reconciliation

FINDING
During the prior period audit, the Authority reconciled both the Comptroller's Monthly Appropriation Status Report and the Object Expense/Expenditure by Quarter Report, in total, to agency records. However, the Authority failed to reconcile each detailed object code to the Comptroller's reports.

During the current period audit, our sample testing lead us to conclude the Authority reconciled each detailed object code to the Comptroller's reports.

STATUS
Not Repeated (Finding Code No. 10-6)

F. Noncompliance with the Illinois Public Funds Investment Act

FINDING
During the prior period audit, the Authority's investment account for its Locally Held Funds violated the Illinois Public Funds Investment Act. This account was comprised of foreign debt securities and money market securities held in foreign banks. Both of these security types are not approved by the Act.

During the current period audit, we noted that the funds which the Authority is currently invested in are all compliant with the Illinois Public Funds Investment Act.

STATUS
Not Repeated (Finding Code No. 10-8)

G. Locally Held Funds in Excess of Federally Insured Limit

FINDING

During the prior period audit, the Authority had a locally held fund that was in excess of the federally insured limit: $701,124 was uncollateralized and at risk.

During the current period audit, we noted that the Authority's investments were completely collateralized and no funds are at risk.

STATUS

Not Repeated (Finding Code No. 10-9)

The audit of the accompanying basic financial statements of the State of Illinois- East St. Louis Financial Advisory Authority (the "Authority") was performed by Schorb & Schmersahl, LLC.

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

SUMMARY OF FINDINGS

The auditors identified matters involving the Authority's internal control over financial reporting that they considered to be significant deficiencies. The significant deficiencies are described in the accompanying Schedule of Findings listed in the table of contents as finding 12-1 *Inadequate Segregation of Duties*.

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with Agency personnel at an exit conference on January 10, 2013. Attending were:

East St. Louis Financial Advisory Authority

Jennifer Wilson	Financial Manager
Brandon Drake	Budget Analyst

Office of the Auditor General

Adam Ausmus	Audit Manager

Schorb & Schmersahl, LLC

James R. Schmersahl	Audit Partner
Maureen E. Downs	Audit Supervisor

The responses to the recommendations were provided by Jennifer Wilson in a letter dated January 22, 2013.

§ **SCHORB & SCHMERSAHL, LLC**
Certified Public Accountants

JAMES R. SCHMERSAHL, CPA

ROGER G. TOENNIES, CPA
STEVEN M. TRIPI, CPA
ROGER A. MATHEWS, CPA
KIM PFEIFFER, CPA

Independent Auditors' Report

Honorable William G. Holland
Auditor General
State of Illinois

Board of Directors
East St. Louis Financial Advisory Authority
East St. Louis, Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Illinois – East St. Louis Financial Advisory Authority (the "Authority") as of and for the year ended June 30, 2012, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note B, the financial statements of the Authority are intended to present the financial position and changes in financial position of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the Authority. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2012, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Authority, as of June 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

518 North Main Street • Columbia, Illinois 62236 • 618-281-5195 • Fax 618-281-6101 • cpa@htc.net

In accordance with *Government Auditing Standards*, we have also issued a report dated January 22, 2013 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the result of our audit.

Management has omitted a management's discussion and analysis and budgetary comparison information for the General Revenue Fund and Special Revenue Fund that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying supplementary information for the year ended June 30, 2012, in the State Compliance Schedules 1 and 3 through 8 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information 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. The accompanying supplementary information for the year ended June 30, 2012 in the State Compliance Schedules 1 and 3 through 8 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 accompanying supplementary information for the year ended June 30, 2012 in the State Compliance Schedules 1 and 3 through 8 is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

We have also previously audited, in accordance with auditing standards generally accepted in the United States of America, the Authority's basic financial statements for the year ended June 30, 2010 (not presented herein) and have issued our report thereon dated January 21, 2011, which contained unqualified opinions on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information. The accompanying supplementary information for the year ended June 30, 2010 in the State Compliance Schedules 3 through 8 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2010 financial statements. The accompanying supplementary information for the year ended June 30, 2010 in the State Compliance Schedules 3 through 8 has been subject to the auditing procedures applied in the audit of the 2010 basic financial statements and certain additional procedures, including and comparing and reconciling such information directly to the underlying accounting and other records used to prepare those financial statements or to those financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information for the year ended June 30, 2010 in the State Compliance Schedules 3 through 8 is fairly stated in all material respects in relation to the basic financial statements as a whole from which it has been derived.

The accompanying supplementary information for the year ended June 30, 2011 in the State Compliance Schedules 2 through 8 and the Analysis of Operations Section is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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, and Board of Directors and Authority management and is not intended to be and should not be used by anyone other than these specified parties.

Scheffel + Schmersahl, LLC

Columbia, Illinois
January 22, 2013

State of Illinois--East St. Louis Financial Advisory Authority
STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2012

ASSETS

	General Revenue Fund	Corporate Savings Fund	Total Governmental Funds	Adjustments	Statement of Net Assets
CURRENT ASSETS					
Unexpended appropriations	$ 10,177	$ -	$ 10,177	$ -	$ 10,177
Cash and cash equivalents	-	158,592	158,592	-	158,592
Investments	-	6,934,261	6,934,261	-	6,934,261
Capital assets, net	-	-	-	9,450	9,450
Total Assets	$ 10,177	$7,092,853	$7,103,030	$ 9,450	$7,112,480

LIABILITIES AND NET ASSETS

	General Revenue Fund	Corporate Savings Fund	Total Governmental Funds	Adjustments	Statement of Net Assets
CURRENT LIABILITIES					
Accounts payable	$ 10,177	$ -	$ 10,177	$ -	$ 10,177
Capital lease payable	-	-	-	2,020	2,020
NONCURRENT LIABILITIES					
Capital lease payable	-	-	-	7,630	7,630
Compensated absences	-	-	-	2,219	2,219
Total Liabilities	10,177	-	10,177	11,869	22,046
FUND BALANCE/NET ASSETS					
Unassigned	-	7,092,853	7,092,853	(7,092,853)	-
Invested in capital assets, net of related debt	-	-	-	(200)	(200)
Unrestricted	-	-	-	7,090,634	7,090,634
Total Fund Balance/Net Assets	-	7,092,853	7,092,853	(2,419)	7,090,434
Total Liabilities and Fund Balance	$ 10,177	$7,092,853	$7,103,030	$ 9,450	$7,112,480

The accompanying notes are an integral part of these financial statements.

State of Illinois--East St. Louis Financial Advisory Authority
RECONCILIATION OF GOVERNMENTAL FUNDS
BALANCE SHEET TO STATEMENT OF NET ASSETS
June 30, 2012

Total Fund Balances - Governmental Funds		$ 7,092,853
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial and therefore are not reported in the funds. The cost of the asset is $10,500 and the accumulated depreciation is $1,050.		9,450
Long term liabilities are not due and payable in the current period and therefore, are only reported in the government-wide statements. Long term liabilities at year end consist of:		
Compensated absences		(2,219)
Some liabilities reported in the Statement of Net Assets do not require the use of current financial resources and therefore are not reported as liabilities in governmental funds. These activities consist of capital lease payables, which are broken down to:		
Short term Capital Lease Payables	(2,020)	
Long term Capital Lease Payables	(7,630)	(9,650)
Net Assets of Governmental Activities		$ 7,090,434

The accompanying notes are an integral part of these financial statements.

State of Illinois--East St. Louis Financial Advisory Authority
STATEMENT OF ACTIVITIES AND GOVERNMENTAL REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2012

	General Revenue Fund	Corporate Savings Fund	Total Governmental Funds	Adjustments	Statement of Activities
EXPENDITURES/EXPENSES					
Total operating expenses of the East St. Louis Financial Advisory Authority	$ 101,484	$ 6,684	$ 108,168	$ 2,327	$ 110,495
PROGRAM REVENUES					
Total interest and investment income	-	317,760	317,760	-	317,760
OTHER SOURCES					
Transfer between funds	(3,000)	3,000	-	-	-
Total appropriations from State resources	104,484	-	104,484	-	104,484
Increase in Fund Balance/Net Assets	-	314,076	314,076	2,327	311,749
FUND BALANCE/NET ASSETS, June 30, 2011	-	6,778,777	6,778,777	92	6,778,685
FUND BALANCE/NET ASSETS, June 30, 2012	$ -	$ 7,092,853	$ 7,092,853	$ 2,419	$ 7,090,434

The accompanying notes are an integral part of these financial statements.

State of Illinois--East St. Louis Financial Advisory Authority
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
For the Year Ended June, 30 2012

Net Change in Fund Balances		$ 314,076
Amounts reported for governmental activities in the Statement of Activities are different because:		
Capital outlays are reported as expenditures in the governmental funds. However, in the Statement of Activities, the cost of capital assets is allocated over the estimated useful lives as depreciation expense. In the current period, these amounts are:		
Capital asset purchases	10,500	
Depreciation Expense	(1,050)	
		9,450
Repayment of lease principal is an expenditure in the governmental funds, but the repayment reduces long term liabilities in the statement of net assets. This is the amount by which proceeds exceeded repayments.		
Lease Principal	10,500	
Payment on lease	(850)	
		(9,650)
Some expenses reported in the Statement of Activities do not require the use of current financial resources, and thus, are not reported as expenditures in governmental funds. These activities consist of:		
Compensated absences		(2,127)
Changes in Net Assets of Governmental Activities		$ 311,749

The accompanying notes are an integral part of these financial statements.

A. ORGANIZATION

The East St. Louis Financial Advisory Authority (Authority), a component unit of the State of Illinois, was established by provisions of the Financially Distressed City Law (65 ILCS 5/8-12-5). The Authority was created to provide a secure financial basis for and to furnish assistance to the City of East St. Louis (City). The governing body of the Authority consists of five Directors. The Directors are appointed by the Governor, with the advice and consent of the Senate.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The Authority's financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation to pay has been incurred. All significant internal transactions have been eliminated.

Financial Reporting Entity

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

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

2) Fiscal dependency on the primary government.

Based upon the required criteria, the Authority is a discretely determined component unit of the State of Illinois' reporting entity. The State of Illinois' Comprehensive Annual Financial Report (CAFR) further describes the State's reporting entity and may be obtained by writing to the State Comptroller's Office, Financial Reporting Department, 325 West Adams Street, Springfield, Illinois 62704-1871.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of Presentation

The financial activities of the Authority are reported as a discretely presented component unit in the State of Illinois' CAFR. For its reporting purposes, the Authority has combined the fund and government-wide financial statements using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column. A brief description of the Authority's government-wide and fund financial statements is as follows:

Government-Wide Statements: The government-wide statement of net assets and statement of activities report the overall financial activity of the Authority. Eliminations have been made to minimize the double counting of internal activities of the Authority. The financial activities of the Authority consist only of governmental activities, which are primarily supported by intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function (i.e. general government) are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the Authority's funds. Separate statements for each fund category are presented. The emphasis on fund financial statements is on a major governmental fund, each displayed in a separate column.

The Authority administers the following major governmental funds (or portions thereof in the case of shared funds—see note on page 35) of the State:

> **General**—This is the State's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The Authority administers and accounts for general government services in the General Fund. Certain resources obtained from federal grants and used to support general governmental activities are accounted for in the General Fund consistent with applicable legal requirements.
>
> **Corporate Savings**—This fund is used to account for repayments of State loan funds received from the City. Expenditures from this fund are made to support activities leading to a restructuring of the City's debt and to enhance earnings on public funds through investments.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of Accounting *(Continued)*

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures are generally recorded when the liability is incurred, as under accrual accounting. However, principal and interest on general long-term debt, claims and judgments, and compensated absences are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Significant revenue sources which are susceptible to accrual include interest. All other revenue sources including miscellaneous revenues are considered to be measurable and available when cash is received.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of GASB.

Shared Fund Presentation

The financial statement presentation for the General Revenue Fund presents only the portion of the shared fund that can be directly attributed to the operations of the Authority. Financial statements for the total fund operations of the General Fund are presented in the State of Illinois' CAFR.

In presenting these financial statements, certain unique accounts are used for the presentation of shared funds. The following accounts are used in these financial statements to present the Authority's portion of shared funds:

Unexpended Appropriations
This "asset" account represents lapse period warrants issued between July and August annually in accordance with the Statewide Accounting Management System (SAMS) records plus any liabilities relating to obligations re-appropriated to the subsequent fiscal year.

Appropriations from State Resources
This "other financing source" account represents the final legally adopted appropriation according to SAMS records. The amounts reported are net of any re-appropriations to subsequent years and the difference between current and prior year liabilities for re-appropriated accounts. Re-appropriations reflect the State's realignment of the budgetary needs to the subsequent year and avoid double counting a portion of the appropriation in more than one fiscal year.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

***Shared Fund Presentation** (Continued)*

Lapsed Appropriations

Lapsed appropriations are the legally adopted appropriations less net warrants issued for the 14-month period from July to August of the following year and re-appropriations to subsequent years according to SAMS records.

Cash and Cash Equivalents

Cash and cash equivalents at the Authority consist of cash held in banks for locally held funds, and cash held in interest-bearing deposit accounts by various banks through the Authority's broker.

Investments

Investments are stated at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in the unrealized gains (loss) on the carrying value of the investments are reported as a component of investment income in the Statement of Revenues, Expenses, and Changes in Net Assets.

Compensated Absences

The liability for compensated absences reported in the government-wide financial statements consists of unpaid, accumulated vacation and sick leave balances for employees of the Authority. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The liability has been calculated based on the employees' current salary level and includes salary related costs.

Legislation that became effective January 1, 1998 capped the paid sick leave for all State Employees' Retirement System members at December 31, 1997. Employees continue to accrue twelve (12) sick days per year, but will not receive monetary compensation for any additional time earned after December 31, 1997. Sick days earned between 1984 and December 31, 1997 (with a 50% cash value) would only be used after all days with no cash value are depleted. Any sick days earned and unused after December 31, 1997 will be converted to service times for purposes of calculating employee pension benefits.

Capital Assets

Capital assets, which include property, plant, and equipment, are reported at cost or estimated historical cost based on appraisals. Contributed assets are reported at estimated fair value at the time received. Capital assets are depreciated using the straight-line method.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Capital Assets *(Continued)*

Capitalization thresholds and the estimated useful lives are as follows:

Capital asset category	Capitalization threshold	Estimated useful life
Equipment	$5,000	3 – 6

Fund Balances

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for specific purposes. Designations of fund balances represent tentative State plans that are subject to change.

Net Assets

In the government-wide financial statements, equity is displayed in three components as follows:

> ***Invested in Capital Assets, Net of Related Debt***—This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
>
> ***Restricted***—This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the State's policy to use restricted resources first, then unrestricted resources when they are needed.
>
> ***Unrestricted***—This consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

Classification of Revenues and Expenses

The Authority has classified its revenues and expenses as either operating or non-operating revenues and expenses according to the following criteria:

> ***Operating Revenues and Expenses***—These include expense activities that have the characteristics of exchange transactions, such as salaries and commodities, along with revenue from the State's funding of these activities. These activities are principally recorded in the General Revenue Fund.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Classification of Revenues and Expenses *(Continued)*

Non-Operating Revenues and Expenses—These include activities that have the characteristics of non-exchange transactions and other revenue sources that are defined as non-operating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Government Entities That Use Proprietary Fund Accounting*, and GASB No. 34, such as investment income. These activities are recorded in the Corporate Savings Fund.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

C. CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents

The State Treasurer is the custodian of the State's cash and cash equivalents for funds maintained in the State Treasury. The Authority independently manages cash and cash equivalents maintained outside of the State Treasury.

Cash, deposits and cash equivalents are held as bank demand deposits. The carrying amount and bank balance at June 30, 2012 was $158,593, all of which was insured through the Federal Depository Insurance Corporation (FDIC). In addition, the Authority held the following investments: Bank Deposit Sweep of $5, and Mutual Funds of $6,934,261, which was 100% collateralized and insured.

Investments

It is the policy of the Authority to invest its "locally held funds" in a manner which will: (a) ensure the safety of principal; (b) provide the highest investment return using authorized investment instruments; and (c) manage liquidity to pay Authority obligations, as required; all in conformance with the Illinois Public Funds Investment Act (30 ILCS 235).

The Act authorizes public agencies, including the State of Illinois Primary Government and State its Component Units, to engage in a wide variety of investment activities. These include bonds, notes, certificates of indebtedness, treasury bills, or other securities now or hereafter issued, which are guaranteed by the full faith and credit of the United States of America as to principal and interest. However, the statute requires that securities purchased shall mature or be redeemable prior to the date when they will be required for expenditure.

C. CASH AND CASH EQUIVALENTS AND INVESTMENTS *(Continued)*

Investments *(Continued)*

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Authority does not have a policy that specifically defines and addresses interest rate risk.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to a debt instrument will not fulfill its obligations. The Authority does not have a policy that specifically defines and addresses credit risk.

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.

At June 30, 2012, the Agency had the following investments and maturities:

Investment Type	Fair Value	Less Than 1	1 – 5	6 – 10	More Than 10
Mutual Funds	$6,934,261	$6,934,261	$ -	$ -	$ -

D. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012 was as follows:

	Balance July 01, 2011	Additions	Deletions	Net Transfers	Balance June 30, 2012
Capital Assets Being Depreciated:					
Equipment	$ -	$10,500	$ -	$ -	$10,500
Less: Accumulated Depreciation:					
Equipment	-	1,050	-	-	1,050
Total Capital Assets Being Depreciated, Net	$ -	$ 9,450	$ -	$ -	$ 9,450

E. SHORT TERM BORROWING

On June 20, 2011, the Authority signed a one month $3,000 non-interest bearing promissory note with the Illinois Finance Authority (IFA) to assist the Authority in meeting its daily cash flow needs and to ensure compliance with 65 ILCS 5/8-12-1 *et seq.* (Financially Distressed City Law). The proceeds from this note were received on July 15, 2011 and repaid on November 1, 2011.

F. LONG-TERM OBLIGATIONS

Changes in long-term obligations for the year ended June 30, 2012 were as follows:

Description	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012	Due Within One Year
Compensated Absences	$92	$ 2,127	$ -	$ 2,219	$ -
Lease Payable	-	10,500	850	9,650	2,020
Totals	$92	$12,627	$850	$11,869	$2,020

G. CAPITALIZED LEASES

During the fiscal year, the Authority entered into a lease purchase contract for a copier. Minimum lease payments are as follows:

Year Ending	Amount
2013	$2,208
2014	2,208
2015	2,208
2016	2,208
2017	1,311
Total minimum lease payments	10,143
Less amount representing interest	(493)
Net minimum lease payments	$ 9,650

H. STATE EMPLOYEES' RETIREMENT SYSTEM

Substantially all of the Authority's full-time employees who are not eligible for participation in another state-sponsored retirement plan participate in the State Employees' Retirement System (SERS), which is a pension trust fund in the State of Illinois reporting entity. SERS is a single-employer defined benefit public employee retirement system (PERS) in which State employees participate, except those covered by the State Universities, Teachers', General Assembly, and Judges' Retirement Systems. The financial position and results of operation of the SERS for fiscal year 2012 are included in the State of Illinois' Comprehensive Annual Financial Report for the year ended June 30, 2012. The SERS issues a separate CAFR that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois, 62794-9255.

A summary of SERS benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the SERS' CAFR. Also included is a discussion of employer and employee obligations to contribute and the authority under which those obligations are established.

H. STATE EMPLOYEES' RETIREMENT SYSTEM *(Continued)*

The Authority pays employer retirement contributions based on an actuarially determined percentage of their payrolls. For fiscal year 2012, the employer contribution rate was 28.377%. Effective January 2004, those employees not covered by a collective bargaining unit agreement were required to contribute to an employee-paid percentage of 4% to SERS.

I. POST-EMPLOYMENT BENEFITS

In addition to providing the above pension benefits, the State provides health, dental and life insurance benefits for certain retirees and their dependents. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health and dental benefits include basic benefits for annuitants under the State's self-insurance plan and insurance contracts currently in force.

Costs incurred for health, dental, and life insurance for annuitants and their dependents were not separated from benefits provided to active employees and their dependents for the year ended June 30, 2012. Post-employment costs for the State as a whole for all State agencies/departments for dependent health, dental and life insurance for annuitants and their dependents are disclosed in the Illinois Comprehensive Annual Financial Report. Cost information for retirees by individual State agency is not available. Payments are made on a "pay-as-you-go" basis.

J. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; workers compensation and natural disasters. The State retains the risk of loss (i.e. self-insured) for these risks.

The Authority's risk management activities are financed through appropriations to the Illinois Department of Central Management Services and are accounted for in the General Fund of the State. The claims are not considered to be a liability of the Authority; and accordingly, have not been reported in the Authority's financial statements for the year ended June 30, 2012.

L. CONTINGENT LIABILITIES

A contingent liability is a liability that is not sufficiently predictable to permit its recording in the financial statements, but for which there is a reasonable possibility of an outcome which might affect the Authority's financial position or its results of operation.

At times, the Authority defends itself against various lawsuits. However, as of June 30, 2012, Authority officials are of the opinion, based on legal counsel advice, that any ultimate liability resulting from such litigation would not have a material effect on the Authority's financial position or its future operations.

M. INTEREST REVENUE

Interest revenue is composed of the following amounts:

Interest earned on Corporate Savings Fund (1302)	$ 151
Investment earnings	317,609
Total Interest and Investment Income	$317,760

N. LEASE

The Authority leases office space from the State of Illinois in the Kenneth Hall State Regional Office Building in East St. Louis.

Rent expense for office space was $0 for the year ended June 30, 2012. No in-kind revenue or expense has been recorded for this item.

O. INTEREST ON LAPSED BALANCES

Expenditures and related lapsed balances for the year ended June 30, 2012 do not reflect any interest payments approved for payment by the Authority and submitted to the Comptroller for payment after August.

P. SUBSEQUENT EVENTS

The Authority has evaluated subsequent events through January 22, 2013, which is the date the financial statements were available to be issued.

Supplementary Information for State Compliance purposes presented in this section of the report includes the following:

- Fiscal Schedules and Analysis:

  Schedule of Appropriations, Expenditures, and Lapsed Balances
  Comparative Schedule of Net Appropriations, Expenditures, and Lapsed Balances
  Comparative Schedule of Locally-Held Funds (Accrual Basis)
  Schedule of Changes in State Property
  Explanation of Significant Variations in Expenditures
  Analysis of Significant Lapse Period Spending
  Analysis of Significant Account Balances

- Analysis of Operations (Unaudited):

  Authority Functions and Planning Program (Unaudited)
  Average Number of Employees (Unaudited)
  Loan Agreement (Unaudited)
  Locally Held Funds (Unaudited)
  Emergency Purchases (Unaudited)
  Illinois First Projects (Unaudited)
  Service Efforts and Accomplishments (Unaudited)

The accountants' report that covers the Supplementary Information for State Compliance Purposes presented in the Compliance Report Section states that it has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in the auditors' opinion, it is fairly stated in all material respects in relation to the basic financial statements as a whole from which it has been derived. The accountants' report also states the Analysis of Operations Section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, they do not express an opinion or provide any assurance on it.

State Of Illinois—East St. Louis Financial Advisory Authority
SCHEDULE OF APPROPRIATIONS, EXPENDITURES
AND LAPSED BALANCES
Appropriations for Fiscal Year 2012
Fourteen Months Ended August 31, 2012

Public Act 97-0065	Appropriations (Net After Transfers)	Expenditures Through 6/30/2012	Approximate Lapse Period Expenditures 7/1-8/31/2012	Approximate Total Expenditures	Approximate Balances Lapsed
Appropriated funds:					
General Revenue Fund - 001					
Operating expenses of the East St. Louis Financial Advisory Authority	$116,400	$94,307	$10,177	$104,484	$11,916
Grand Total – All Funds	$116,400	$94,307	$10,177	$104,484	$11,916

Note 1: Appropriation, expenditures and lapsed balances were obtained from Authority records and have been reconciled to the records of the State Comptroller.

Note 2: Expenditure amounts are vouchers approved for payment by the Authority and submitted to the State Comptroller for payment to the vendor.

Note 3: Approximate lapse period expenditures do not include any interest payments approved for payment by the Authority and submitted to the Comptroller for payment after August.

State Of Illinois—East St. Louis Financial Advisory Authority
SCHEDULE OF APPROPRIATIONS, EXPENDITURES
AND LAPSED BALANCES
(Continued)
Appropriations for Fiscal Year 2011
Eighteen Months Ended December 31, 2011

Public Act 96-0956	Appropriations (Net After Transfers)	Expenditures Through 6/30/2011	Lapse Period Expenditures 7/1-12/31/2011	Total Expenditures	Balances Lapsed
Appropriated funds:					
General Revenue Fund - 001					
Operating expenses of the East St. Louis Financial Advisory Authority	$116,400	$116,071	$323	$116,394	$6
Grand Total – All Funds	$116,400	$116,071	$323	$116,394	$6

Note 1: Appropriation, expenditures and lapsed balances were obtained from Authority records and have been reconciled to the records of the State Comptroller.

Note 2: Expenditure amounts are vouchers approved for payment by the Authority and submitted to the State Comptroller for payment to the vendor.

State Of Illinois—East St. Louis Financial Advisory Authority
COMPARATIVE SCHEDULE OF NET APPROPRIATIONS,
EXPENDITURES AND LAPSED BALANCES
For the Years Ended June 30, 2012, 2011, and 2010

General Revenue Fund – 001	2012 PA 97-0065	2011 PA 96-0956	2010 PA 96-0042
Appropriations (net after transfers)	$116,400	$116,400	$120,000
Expenditures			
Operating expenses of the East St. Louis Financial Advisory Authority	104,484	116,394	119,935
Total Expenditures	104,484	116,394	119,935
Total Lapsed Balances	$ 11,916	$ 6	$ 65

Note: Fiscal year 2012 and 2010 expenditures and related lapsed balances do not reflect any interest payments approved for payment by the Authority and submitted to the Comptroller for payment after August.

State Of Illinois—East St. Louis Financial Advisory Authority
COMPARATIVE SCHEDULE OF LOCALLY-HELD FUNDS
(ACCRUAL BASIS)
For the Years Ended June 30, 2012, 2011, and 2010

Corporate Savings Fund - 1302	2012	2011	2010
Balance, July 1	$6,778,777	$6,730,966	$6,676,570
Interest and investment income	317,760	118,023	194,210
Charges for service	-	251	-
Transfer between funds	3,000	-	-
Total Revenues	320,760	118,274	194,210
Personal services	-	34,478	118,907
Contractual services	7,036	30,882	18,044
Travel	-	866	1,322
Commodities	-	945	535
Printing	-	180	-
Telecommunications	(106)	2,518	1,006
Other operating expenses	(246)	594	-
Total Expenditures	6,684	70,463	139,814
Balance, June 30	$7,092,853	$6,778,777	$6,730,966

State Of Illinois—East St. Louis Financial Advisory Authority
SCHEDULE OF CHANGES IN STATE PROPERTY
For the Years Ended June 30, 2012 and 2011

Beginning Balance, July 1, 2010	$52,875
Additions	-
Deletions	-
Net transfers	-
Ending Balance, June 30, 2011	$52,875
Beginning Balance, July 1, 2011	$52,875
Additions	10,500
Deletions	-
Net transfers	-
Ending Balance, June 30, 2012	$63,375

Note: Information was obtained from Authority records and reconciled to property reports submitted to the Office of the Comptroller.

Note: This summary schedule was prepared using State property records required by the Illinois Administrative Code. The capitalization policy in the Code is different than the capitalization policy established by the Office of the Comptroller for financial reporting in accordance with generally accepted accounting principles.

	Fiscal Year		
General Revenue Fund - 001	2012	2011	2010
Personal services	$ 69,847	$115,960	$110,900
Contractual services	27,967	37	4,148
Travel	1,511	110	1,890
Commodities	2,782	-	1,534
Printing	88	-	-
Electronic data processing	-	-	229
Telecommunications	2,289	287	1,234
Total General Revenue Fund Expenditures	104,484	116,394	119,935
Corporate Savings Fund - 1302			
Total Corporate Savings Fund Expenditures	6,684	70,463	139,814
Total Expenditures – All Funds	$111,168	$186,857	$259,749

Scope: GRF (001): Variances > $5,000 and 20%
CSF (1302): Variances > $40,000 and 20%

The decrease in personal services expenditures from 2011 to 2012 is due to a reduction in the staff at the Authority and restructure of positions. The Authority no longer has an Executive Director position and only had two paid staff positions for most of fiscal year 2012.

The increase in contractual services expenditures from 2011 to 2012, and the decrease in corporate savings fund expenses, is due to the fact the Authority utilized a portion of its locally held fund to pay operating expenses in the first half of 2011. This practice ceased and all expenditures in 2012 were paid from the appropriation. Also, 2011 had a significant amount of legal expenses that were not repeated in 2012.

State Of Illinois—East St. Louis Financial Advisory Authority
ANALYSIS OF SIGNIFICANT LAPSE PERIOD SPENDING
For the Years Ended June 30, 2012 and 2011

	Fiscal Year 2012			
Description	Expenditures Through 6/30/2012	Lapse Period Expenditures	Total Expenditures	Percentage of Total
Personal services	$69,847	$ -	$ 69,847	0%
Contractual services	20,122	7,845	27,967	28%[A]
Travel	1,401	110	1,511	7%
Commodities	1,113	1,669	2,782	60%
Printing	-	88	88	100%
Telecommunications	1,824	465	2,289	20%
Total	$94,307	$10,177	$104,484	10%

	Fiscal Year 2011			
Description	Expenditures Through 6/30/2011	Lapse Period Expenditures	Total Expenditures	Percentage of Total
Personal services	$115,961	$ -	$115,961	0%
Contractual services	-	37	37	100%
Travel	110	-	110	0%
Telecommunications	-	286	286	100%
Total	$116,071	$323	$116,394	0%

SCOPE: 20% and $5,000

(A) Increased lapse period expenses in contractual services expenditures due to timing of the receipt of invoices for legal and other contractual services.

State Of Illinois—East St. Louis Financial Advisory Authority
ANALYSIS OF SIGNIFICANT ACCOUNT BALANCES
For the Years Ended June 30, 2012 and 2011

	June 30,		Increase/
	2012	2011	(Decrease)
Corporate Savings Fund:			
Cash and cash equivalents	$ 158,592	$ 166,572	($ 7,980)
Investments	6,934,261	6,616,642	317,619

Scope: Variance > 20%

	June 30, 2011	June 30, 2010	Increase/ (Decrease)
Corporate Savings Fund:			
Cash and cash equivalents	$ 166,572	$ 287,065	$(120,493) (1)
Investments	6,616,642	6,436,883	179,759

Scope: Variance > 20%

(1) The decrease in cash and cash equivalents is due the purchase of approximately $50,000 in securities from a money market fund as well as utilization of approximately $70,000 for operating expenses.

INTRODUCTION

During the audit period, the State of Illinois – East St. Louis Financial Advisory Authority (Authority) received two lump sum appropriations (one for each fiscal year) from the General Revenue Fund to provide for the operating expenses of the Authority.

AUTHORITY FUNCTIONS AND PLANNING PROGRAM (Unaudited)

The State of Illinois, East St. Louis Financial Advisory Authority (Authority) was established on August 30, 1990. The purpose of the Authority is to provide a secure financial basis for and to furnish assistance to the City of East St. Louis (City). The Authority issued a loan of $3,795,000 to the City in Fiscal Year 1991, allowing the City to provide basic municipal services and meet its obligations to creditors.

The Authority has statutory powers to:

- Provide for its organizations and internal management,
- Make rules and regulations governing the use of property and facilities,
- Make and execute contracts, leases, and other instruments or agreements necessary or convenient for the exercise of its powers,
- Approve all loans, grants, or other financial aid from any State agency to the City,
- Appoint officers, agents, and employees of the Authority,
- Engage the services of consultants for rendering professional and technical assistance and advice on matters within the Authority's power,
- Pay the expenses of operations, and
- Determine the terms and conditions of any loans made to the City.

The Authority is made up of a governing board of five Directors appointed by the Governor, with the advice and consult of the Senate, with one serving as the Authority Chairperson. The Directors serve without compensation. The Directors are appointed to hold office for a term of three years and until his or her successor has been appointed. The members of the Board of Directors at June 30, 2012 were

- Marvin Lampkin, Chairperson
- Jacquline R. Settles
- David Moore
- Clarence Ellis, Sr.
- Director Position is Vacant

The City is required to develop and adopt budgets and financial plans annually and during interim periods as directed by the Authority. The Authority has the power to approve or reject any budgets, financial plans, or contracts that are inconsistent with the budget or financial plan of the City.

AUTHORITY FUNCTIONS AND PLANNING PROGRAM (Unaudited) *(Continued)*

The Authority's current Financial Manager is Jennifer Wilson, who assumed these duties on March 1, 2012. The Financial Manager's duties include having signature authority for all expenditures made from the proceeds of any State loans, advising the City on preparation of a financial plan and budget, and monitoring expenditures of the City. The Authority had a contract with Mr. Robert Basset to serve as the Authority's Legal Counsel that was effective until January 2013.

Planning Program

The Authority has developed a planning document that includes long-term and short-term goals. The long-term goals developed by the Authority include:

- To change the method of approving City expenditures,
- To analyze the long-term impact on financial recovery of having the entire city included in a TIF district,
- To develop a role in the City's effectiveness and productivity improvements, and
- To develop a role in the development of a comprehensive recovery plan for the City.

The Authority also established several short-term goals to assist in fulfilling its long-term objectives. Short-term goals are reviewed annually by the Authority. The Authority's short-term goals are to:

- Make a determination about the City's FY2012 audit;
- Monitor and report on the condition of the City's 2012 Budget;
- Monitor the status of TIF funding and obligations;
- Monitor City compliance with the Three-Year Financial Plan.

These goals are monitored through meetings held by the Authority. By reviewing the goals annually, the Authority is able to focus on areas that will enable it to more effectively carry out its statutorily mandated functions.

Auditor's Assessment of Planning Program

During the audit period, the Authority maintained an adequate planning program.

AUTHORITY FUNCTIONS AND PLANNING PROGRAM (Unaudited) *(Continued)*

Authority Location and Management

- Chairperson: Marvin Lampkin
- Financial Manager: Jennifer Wilson
- Address: East St. Louis Financial Advisory Authority
  Kenneth Hall State Regional Office Building
  10 Collinsville Avenue
  Suite 202
  East St. Louis, Illinois 62201

AVERAGE NUMBER OF EMPLOYEES (Unaudited)

The following information was prepared from the Authority's records and presents the average number of Authority and contractual employees for the fiscal year ended June 30,

	2012	2011	2010
Payroll Employees	2	3	3
Contractual Employees	1	1	1
Total Employees	3	4	4

The Authority began utilizing the State of Illinois Central Payroll System in fiscal year 1996. All Authority employees, excluding Legal Counsel, are payroll employees.

During fiscal year 2011 and fiscal year 2012, the Authority's governing board consisted of four Directors appointed by the Governor, who served without compensation. Since May 2007 to the present, the Authority also contracted for legal services necessary to assist in the affairs of the Authority.

LOAN AGREEMENT (Unaudited)

The Authority loaned a total of $3,795,000 to the City of East St. Louis (City) during fiscal year 1991. The loan agreement required the City to make quarterly loan repayments beginning in fiscal year 1994. The Authority's governing legislation was amended in fiscal year 1995 to allow the Authority to use loan repayment funds to assist with the restructuring of the City's debt. The Authority pledged the first two loan payments to assist the City in obtaining financing to purchase fire-fighting equipment. During fiscal year 1996, the City fulfilled the terms of the loan and the provisional payments pledged by the Authority were released. The provisional payments have been applied against the loan principal. This loan was paid in full as of July 2003.

LOCALLY HELD FUNDS (Unaudited)

The Financially Distressed City Law (65 ILCS 5/8-12-6(c)) was amended in fiscal year 1995 to enable the Authority to deposit loan repayment funds received from the City into a revolving fund under the control of the Authority. These monies can be used by the Authority to support activities leading to the restructuring of the City's debt, and may be pledged as security for any new debt incurred by the City. The Authority held loan repayment monies in one locally held fund. The Corporate Savings Fund (1302) was administered by the Authority throughout fiscal year 2011 and fiscal year 2012.

Corporate Savings Fund (1302)

The Corporate Savings Fund was established to account for repayments of State loan funds received from the City and to support activities leading to a restructuring of the City's debt.

The roll forward schedules for the Authority's Locally Held Fund for the two fiscal years ended June 30, 2012 are presented on page 47 of this report.

EMERGENCY PURCHASES (Unaudited)

The Authority did not engage in any emergency purchases during the audit period.

ILLINOIS FIRST PROJECTS (Unaudited)

The Authority did not have any Illinois First Projects funded during the audit period.

SERVICE EFFORTS AND ACCOMPLISHMENTS (Unaudited)

The East St. Louis Financial Advisory Authority has been a central component in many positive developments for the City of East St. Louis (City); many times, it has been the prime motivator in the accomplishments. It has assisted in:

- Implementing a $3,795,000 state loan to the City in 1991 and 1992 which was paid back in 2003, two years early.
- Restoring withheld IDOT Motor Fuel Tax (MFT) payments in 1991 by entering into an agreement for the City to repay $2,885,142 in misused MFT funds. The monies were repaid in 2003, three years early.
- Establishing a riverboat gambling casino in 1993.
- Expanding the riverboat gambling casino and hotel through TIF revenue bonds in 1999.
- Restructuring the City's debt and liabilities in 1994 through the issuance of $21,435,000 in Debt Restructuring Revenue Bonds and refunding the refundable portion in 2003.

SERVICE EFFORTS AND ACCOMPLISHMENTS (Unaudited) *(Continued)*

- Designing a new Financial Management System (FMS) in 1999 and participating in monthly reviews of its performance.

- Hiring a Financial Management System Contractor in 2000 to manage, operate and maintain the FMS and participating in monthly meetings regarding performance and outcomes.

- Hiring a TIF consultant in 2003 to prepare options and recommendations for revisiting the City-wide TIF program to help reduce inordinately high property taxes.

- Initiating a self-insurance program and establishing appropriate self-insurance cash reserves.

- Initiating an internal control audit of the City's FMS in 2004, and

- Resolving accounting and budget problems and issues including advising on how to balance the budgets. The Authority approves the City's annual budget, annual Three-Year Financial Plan and contracts, purchase orders and personnel actions. The Authority serves as a source of managerial and financial expertise and advice to City management.

- Approval of the City of East St. Louis' 2010 Debt Restructuring Plan and identified solutions to address the City's dire financial problem and reduce the City's deficit.

- The establishment and approval of a promissory note and lending agreement between the City of East St. Louis and East St. Louis Financial Advisory Authority in the amount of $2,500,000.

- Approval of the East St. Louis Housing Authority (ESLHA) – Senior & Mixed Use Housing Project in the amount of $17,000,000.

- Approval of the City of East St. Louis Revenue Financing Bonds, Series 2010 to issue its revenue bonds to refund a portion of the outstanding Series 2003 Bonds and a portion of the outstanding Series 2005 Bonds.

- Re-evaluating the City's internal controls to help reduce operating costs. Cost-cutting measures included revamping expense account procedures for City employees and officials in 2010 and the relocation of the office of the East St. Louis Board of Elections Commissioners to East St. Louis City Hall in 2012.