



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

William G. Holland, Auditor General

**SUMMARY REPORT DIGEST**

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**ILLINOIS MEDICAL DISTRICT COMMISSION**

**FINANCIAL AUDIT AND  
COMPLIANCE EXAMINATION**

**For the Year Ended: June 30, 2012**

**Release Date: February 14, 2013**

**Summary of Findings:**

Total this audit:	2
Total last audit:	3
Repeated from last audit:	1

**SYNOPSIS**

- The Commission did not have adequate internal controls for monitoring compliance with covenants and other provisions set forth in various documents related to Illinois Finance Authority revenue bonds issued for Commission projects.
- The Commission did not comply with the Illinois Procurement Code.

{Expenditures and Activity Measures are summarized on the reverse page.}

**ILLINOIS MEDICAL DISTRICT COMMISSION**  
**FINANCIAL AUDIT AND COMPLIANCE EXAMINATION**  
For the Year Ended June 30, 2012

<b>STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS</b>	<b>FY 2012</b>	<b>FY 2011</b>
<b>OPERATING REVENUES</b>		
Rental Income.....	\$ 3,863,152	\$ 3,141,771
Other Operating Revenues.....	12,501	24,990
Total Operating Revenues.....	<u>3,875,653</u>	<u>3,166,761</u>
<b>OPERATING EXPENSES</b>		
Property Management and Development.....	2,806,651	2,510,004
Depreciation and Amortization.....	1,189,492	1,183,213
Total Operating Expenses.....	<u>3,996,143</u>	<u>3,693,217</u>
Operating Losses.....	<u>(120,490)</u>	<u>(526,456)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Investment Income.....	1,425,714	1,393,356
Interest Expense.....	<u>(3,321,303)</u>	<u>(3,370,570)</u>
Net Nonoperating Expenses .....	<u>(1,895,589)</u>	<u>(1,977,214)</u>
Loss Before Other Revenues, Expenses, Gains and Losses .....	<u>(2,016,079)</u>	<u>(2,503,670)</u>
Capital grants.....	<u>2,187,393</u>	<u>169,860</u>
<b>Increase (Decrease) in Net Assets.....</b>	<b><u>\$ 171,314</u></b>	<b><u>\$ (2,333,810)</u></b>
<b>STATEMENT OF NET ASSETS</b>	<b>FY 2012</b>	<b>FY 2011</b>
<b>Assets:</b>		
Cash and Cash Equivalents.....	\$ 3,149,169	\$ 1,333,468
Accounts and Other Receivables.....	134,704	128,787
Notes Receivable.....	30,688,473	31,794,878
Investments.....	2,539,343	3,475,917
Debt Issuance Costs.....	607,943	640,657
Capital Assets (net), and Other Assets.....	<u>60,219,337</u>	<u>60,382,958</u>
Total Assets.....	<u>97,338,969</u>	<u>97,756,665</u>
<b>Liabilities</b>		
Accounts Payable and Accrued Expenses.....	1,700,731	396,468
Deferred Revenue.....	4,224,860	680,881
Interest Payable.....	786,104	799,421
Line of Credit.....	3,000,000	3,000,000
Certificates of Participation.....	25,185,000	25,925,000
Due to Other State Agencies.....	29,825,300	34,523,278
Security Deposits.....	361,336	347,293
Total Liabilities.....	<u>65,083,331</u>	<u>65,672,341</u>
<b>Net Assets</b>		
Invested in Capital Assets, (net of related debt).....	23,847,513	22,809,813
Restricted - Expendable for Capital Project.....	16,996	23,290
Unrestricted.....	<u>8,391,129</u>	<u>9,251,221</u>
<b>Total Net Assets.....</b>	<b><u>\$ 32,255,638</u></b>	<b><u>\$ 32,084,324</u></b>
<b>AGENCY DIRECTOR</b>		
During Audit Period: Samuel Pruett (Until 3/31/12) and Warren Ribley (4/1/12 to Present)		
Currently: Warren Ribley		

## FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

### **NEED TO IMPROVE MONITORING OVER COMPLIANCE WITH BOND COVENANTS**

#### **Inadequate Controls**

##### **Commission failed to comply with provisions in various official bond documents**

##### **Commission did not have formal written policies and procedures**

##### **Official bond documents contained inconsistent language and provisions**

##### **Debt service coverage ratio calculation initially incorrect**

##### **Property expenses did not include detailed monthly review**

The Illinois Medical District Commission (Commission) did not have adequate internal controls for monitoring compliance with covenants and other provisions set forth in various documents related to Illinois Finance Authority (IFA) revenue bonds issued for Commission projects.

On January 31, 2006, the Commission entered into an agreement with IFA to issue, on behalf of the Commission, \$40 million of revenue bonds. The IFA loaned the bond proceeds to the Commission. These revenue bonds are to be repaid from revenues derived from certain revenue bond properties owned by the Commission. This transaction included several covenants set forth in various official documents, namely:

1. Official Statement related to the bond issuance;
2. Indenture of Trust between the IFA and the Bond Trustee; and
3. Loan and Security Agreement between the IFA and the Commission.

During testing of these various official documents, the auditors noted the following:

1. The Commission did not have formal written policies and procedures pertaining to revenue, disbursements, and general compliance as set forth in various official documents.
2. The various official documents contain language and provisions not consistent with either current or past auditing standards or current Commission operations.
3. The initial Debt Service Coverage Ratio (DSCR) calculation for Fiscal Year 2012 was incorrect. Specifically, operating revenues related to revenue property were overstated by about \$87,000. After the auditors brought this matter to the attention of the Commission, management adjusted and recalculated the DSCR.
4. Certain property management and development expenses charged to certain revenue bond properties of the Commission were reimbursed from funds derived from other Commission properties not pledged to bondholders. While the expenses reviewed were allowable, the Commission documentation supporting the basis for allocation of certain costs between these properties did not include a detailed

**Commission submitted incomplete reports**

monthly review.

5. The Commission submitted certain reports required by the various official documents that were incomplete.

As a result of the moral obligation covenant within the revenue bond's Official Statement, the Commission entered into an Intergovernmental Agreement on January 31, 2006 with the State of Illinois, by and through the Governor's Office of Management and Budget (GOMB). This agreement sets forth additional reporting requirements between the Commission, IFA, and GOMB related to the provision by the State of its moral obligation.

During testing of the Intergovernmental Agreement, the auditors noted the following:

**Intergovernmental agreement contained inconsistent language and provisions**

**Commission submitted incomplete fiscal year 2011 annual report**

1. The Intergovernmental Agreement contains language and provisions not consistent with either current or past auditing standards or current Commission operations.
2. The Fiscal Year 2011 annual report submitted to GOMB did not include a supplemental balance sheet, statement of activities and expenditures, and statement of cash flows of the revenue property or a calculation of DSCR calculated by the certified public accountant auditing the Commission's financial statements.
3. The lease occupancy reports submitted to GOMB for the first and second quarters of Fiscal Year 2012 were submitted 16 and 332 days late, respectively.  
**(Finding 1, pages 12-16)**

**Commission submitted lease occupancy reports late**

**Commission agrees with the auditors**

We recommended the Commission establish adequate internal controls and procedures to monitor and comply with covenants and agreements entered into by the Commission pertaining to the 2006 revenue bonds.

Commission officials agreed with the Finding and recommendation and indicated new management has and will continue to implement corrective actions.

**NONCOMPLIANCE WITH THE ILLINOIS PROCUREMENT CODE**

The Illinois Medical District Commission (Commission) did not comply with the Illinois Procurement Code (Code).

**Three contracts, totaling \$63,000, filed with the Comptroller were late**

During our review of 10 contractual agreements, we noted three (30%) contracts, individually exceeding \$10,000, totaling \$63,000 were filed with the Illinois Office of the Comptroller (Comptroller) 5 to 25 days late. One of these contracts was filed within 40 days of execution, thus an

**Commission agrees with the auditors**

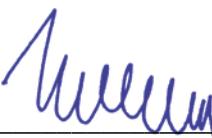
affidavit explaining the untimely filing was also submitted. However, a copy of this affidavit was not filed with the Office of the Auditor General. (**Finding 2, pages 17-18) Finding first reported in 2010.**

We recommended the Commission ensure all contracts are filed with the Comptroller and copies of late filing affidavits are submitted to the Auditor General in accordance with the Code.

Commission officials agreed with the finding and recommendation and stated they will implement policies to ensure compliance with the Code. (For previous Commission response, see Digest Footnote #1)

**AUDITORS' OPINION**

Our auditors stated that the financial statements present fairly, in all material respects, the respective financial position of the business-type activities of the Commission, as of June 30, 2012, and the respective changes in net assets and cash flows, thereof for the year then ended.



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WILLIAM G. HOLLAND  
Auditor General

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**SPECIAL ASSISTANT AUDITORS**

Our special assistant auditors for this audit were E.C. Ortiz & Co., LLP.

**DIGEST FOOTNOTES**

**#1 – NONCOMPLIANCE WITH THE ILLINOIS PROCUREMENT CODE**

2011: The Commission agreed with this Finding. The Commission will implement policies to ensure compliance with the provisions of the Illinois Procurement Code as applicable.