STATE OF ILLINOIS
OFFICE OF THE
AUDITOR GENERAL
William G. Holland, Auditor General

SUMMARY REPORT DIGEST

ILLINOIS MEDICAL DISTRICT COMMISSION

FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
For the Year Ended: June 30, 2011
Release Date: January 26, 2012

Summary of Findings:

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

SYNOPSIS

- The Commission did not remit unexpended proceeds from the sale of Commission property into the Income Fund held in the State Treasury.
- The Commission did not comply with the Illinois Procurement Code.
- The Commission did not comply with the terms of the loan and security agreement with the Illinois Finance Authority.

{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, 2011

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS	FY 2011	FY 2010
OPERATING REVENUES		
Rental Income	$ 3,141,771	$ 3,234,937
Other Operating Revenues	24,990	17,722
Total Operating Revenues	$ 3,166,761	$ 3,252,659
OPERATING EXPENSES		
Property Management and Development	$ 2,510,004	$ 2,436,863
Depreciation and Amortization	1,183,213	1,103,409
Total Operating Expenses	$ 3,693,217	$ 3,540,272
Operating Loss	$ (526,456)	$ (287,613)
NONOPERATING REVENUES (EXPENSES)		
Investment Income	$ 1,393,356	$ 1,587,094
Interest Expenses	(3,370,570)	(3,366,965)
Net Nonoperating Expenses	$ (1,977,214)	$ (1,779,871)
Loss Before Other Revenues, Expenses, Gains and Losses	$ (2,503,670)	$ (2,067,484)
Loss on Disposal of Capital Assets		(1,111,887)
Capital grants	169,860	-
Capital Transfers From Other State Agencies		13,399
Decrease in Net Assets	$ (2,333,810)	$ (3,165,972)
STATEMENT OF NET ASSETS	**FY 2011**	**FY 2010**
Assets:		
Cash and Cash Equivalents	$ 1,333,468	$ 1,014,389
Accounts and Other Receivables	128,787	215,649
Notes Receivable	31,794,878	32,871,683
Investments	3,475,917	3,135,370
Debt Issuance Costs	640,657	673,370
Capital Assets, Other Assets, (net)	60,382,958	61,177,487
Total Assets	$ 97,756,665	$ 99,087,948
Liabilities		
Accounts Payable and Accrued Expenses	$ 396,468	$ 452,680
Deferred Revenue	$ 680,881	-
Interest Payable	799,421	794,208
Line of Credit	3,000,000	3,000,000
Certificates of Participation	25,925,000	26,635,000
Due to Other State Agencies	34,523,278	33,434,353
Other	347,293	353,573
Total Liabilities	$ 65,672,341	$ 64,669,814
Net Assets		
Invested in Capital Assets, (net)	$ 22,809,813	$ 24,664,962
Restricted	23,290	23,286
Unrestricted	9,251,221	9,729,886
Total Net Assets	$ 32,084,324	$ 34,418,134

AGENCY DIRECTOR
During Examination Period: Samuel Pruett
Currently: Samuel Pruett

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

FAILURE TO REMIT UNEXPENDED PROCEEDS FROM THE SALE OF COMMISSION PROPERTY INTO THE INCOME FUND HELD IN THE STATE TREASURY

The Illinois Medical District Commission (Commission) did not remit unexpended proceeds from the sale of Commission property to the State Treasury for deposit into the Medical Center Commission Income Fund.

The Illinois Medical District Act requires the Commission to remit to the State Treasury all moneys on hand (originating from the sale of Commission property) as of June 30 in excess of $350,000.

Unexpended proceeds of $8,152,049 were not remitted to the State Treasury

During Fiscal Year 2004, the Commission sold real property to the Federal Bureau of Investigation. The proceeds from the sale totaled $10,688,767. As of June 30, 2005, an estimated $8,152,049 of those proceeds had not been expended or obligated and the Commission did not remit these excess funds to the State Treasury. As of June 30, 2006, the unexpended portion of these proceeds totaled $7,877,969, and the Commission had not yet remitted any excess funds to the State Treasury. As of June 30, 2007, funds in the amount of $4,000,000 were pledged as collateral for a $40 million bond offering pursuant to a Commission Resolution dated May 23, 2006, and the remainder of the funds were pledged as collateral for a line of credit with a bank, originally $4,000,000 now at $3,000,000. As of June 30, 2011 the unexpended portion of these proceeds was $3,877,969. (Finding 1, pages 11-14) **This finding was first reported in 2005.**

We recommended the Commission remit the excess moneys to the State Treasury for deposit into the Income Fund or seek statutory remedy.

Commission officials disagree

The Commission's response to this finding remains as stated in prior responses, that the Commission did not remit unexpended proceeds from the sale of Commission property to the State Treasury because the proceeds have been expended. As the Commission has noted in prior responses, $4,025,000 of the amounts that the Auditor General maintains must be deposited were expended upon the cash equity portion of bonds issued by the Illinois Finance Authority and the remainder was expended as collateral for a line of credit that was used in the acquisition of parcels of land by eminent domain.

The Commission acknowledges that both the Auditor General and Attorney General disagree with measures taken by the

Commission states Legislative action required to resolve the matter

Commission but states these disagreements do not change the facts that the measures taken were within the authority of the Commission. The Commission agrees with the Attorney General that legislative action is required to resolve this matter and the Commission continues to pursue that course. (For previous Commission response, see Digest Footnote #1)

Auditors' Comment

In an auditor comment, we stated that the auditors continue to stand by the finding based on the same criteria that was cited in the prior six audits. We noted that under the statute, by October 10th of each year money is either expended or on hand. Under common everyday usage, the term "expended" means paid out. This definition is also consistent with usage in State government. Under the plain meaning of the law, money on hand in excess of $350,000 must be remitted to the State Treasury in the time frame set forth in Section 10. The auditors do not believe the statute allows the Commission to hold for an indefinite period of time an unlimited accumulation of money that has been "set aside" or "pledged as collateral" or "committed" but not paid out.

Not only, according to the Attorney General, were the monies at issue "on hand" and not properly remitted to the State Treasurer but they were used by the Commission as security for an unauthorized line of credit. The auditors continue to believe these monies should be remitted to the State Treasury.

Commission has made no attempt to pursue legislative action

Furthermore, in the Commission's past responses to this finding and in response to a suggestion by the Attorney General, the Commission stated that they were going to diligently pursue legislative action to resolve this matter. The Commission has made no attempt at such legislative action since providing that same response to this finding the last two years. In the meantime, the Commission remains in non-compliance with this statute and with the Attorney General's opinion that the $3-$4 million used as bank collateral were for an unauthorized line-of-credit. (For Previous Commission Response, see Digest Footnote #1)

Commission remains in noncompliance with the law

NONCOMPLIANCE WITH THE ILLINOIS PROCUREMENT CODE

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

Disbursements to five vendors totaling $115,850 were not reduced to written contracts and consequently not filed with the Office of the Comptroller

During the year, the Commission disbursed funds to five vendors, totaling $115,850. Total payments to each of these five vendors, ranging from $13,103 to $38,146 were made in increments within two to four months and none were reduced to written contracts. Consequently, the Commission did not file copies of contracts with the Office of the Comptroller.

During the year, the Commission made two emergency purchases for legal services. One of the contracts was for legal services relating to various administrative, zoning and other legal matters, while the other contract was for legal services relating to the defense of the Chicago Technology Park Corporation (Corporation) (a component unit of the Commission), voluntarily dissolved on June 26, 2009. These emergency purchases were renewals of emergency contracts entered into in fiscal year 2009.

Some of the issues noted follow:

Legal services for a former component unit that was dissolved are being paid by the Commission instead of the liquidating trust

- Governor' prior approval for non-competitive procurement of legal contracts was not obtained;
- Legal services were for the Corporation, which is no longer in existence, and according to the Commission, any liability which may arise in relation to the Corporation would presumably be paid out of the liquidating trust, which in and of itself, is not a component unit of the Commission;
- Emergency purchase affidavits were not filed with the Office of the Auditor General nor was this information posted in the Illinois Procurement Bulletin (Finding 2, pages 15-17)

We recommended that the Commission comply with the Illinois Procurement Code.

Commission officials agreed with the recommendation.

Commission agrees with the auditors

NONCOMPLIANCE WITH LOAN AND SECURITY AGREEMENT

The Illinois Medical District Commission (Commission) did not comply with the terms of the loan and security agreement with the Illinois Finance Authority (Authority).

Failure to maintain debt service ratio of 1.05

During the year, the Commission had a debt service coverage ratio of 0.31 resulting from Revenue Property of $750,512 and Principal and Interest of payments of $2,409,471. The loan and security agreement between the Authority and the Commission dated January 1, 2006 requires the Commission to achieve a debt service coverage ratio of at least 1.05. (Finding 2, Page 18)

We recommended the Commission ensure compliance with the debt service ratio.

Commission agrees with the auditors

Commission officials agreed with the recommendation and stated that additional properties included in the revenue bond agreement began producing revenue which will increase the debt service ratio.

AUDITOR'S 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, 2011, and the respective changes in net assets and cash flows, thereof for the year then ended.

WILLIAM G. HOLLAND
Auditor General

WGH:KMC:pp

SPECIAL ASSISTANT AUDITORS

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

DIGEST FOOTNOTES

#1 –Failure to remit Unexpended Proceeds from the Sale of Commission Property into the Income Fund Held in the State Treasury – Previous Commission Response

2010: The response of the Illinois Medical District Commission ("Commission") to the finding of the Auditor General regarding unexpended funds, remains, as stated in prior responses, that the Commission did not remit unexpended proceeds from the sale of Commission property to the State Treasury because the proceeds have been expended. As the Commission has noted in prior responses to the Auditor General, $4,025,000 of the amounts that the Auditor General maintains must be deposited were expended upon the cash equity portion of bonds issued by the Illinois Finance Authority pursuant to an intergovernmental agreement between the State of Illinois, by and through its Office of Management and Budget, and the Commission. The remainder was expended as collateral for a line of credit that was used in the acquisition of parcels of land by eminent domain. Condemnation can be a protracted process. The line of credit has been used to avoid having to dismiss and refile cases, a process that would have provided sellers with the opportunity to reappraise their properties and increase their demands. The net effect of the line of credit has been to save taxpayers money in acquisitions that were authorized by the General Assembly and the Governor.

The Commission acknowledges ad understands that both the Auditor General and Attorney General disagree with measures taken by the Commission in furtherance of its legislatively-mandated purposes. These disagreements do not change the facts that the measures taken were within the authority of the Commission, they were undertaken in good faith and that, as a result of these steps, there are no unexpended funds available for deposit into the State Treasury. The Attorney General has suggested that legislative action is required to resolve this matter. The Commission agrees with the Attorney General on this point and continues to pursue that course.