

**STATE OF ILLINOIS
SOUTHEASTERN ILLINOIS
ECONOMIC DEVELOPMENT AUTHORITY**

**FINANCIAL AUDITS
FOR THE YEARS ENDED
JUNE 30, 2006, 2007, 2008 AND 2009**

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

STATE OF ILLINOIS
 SOUTHEASTERN ILLINOIS ECONOMIC DEVELOPMENT AUTHORITY
 (A Component Unit of the State of Illinois)

FINANCIAL AUDITS

For the Years Ended June 30, 2006, 2007, 2008, and 2009

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STATE OF ILLINOIS
SOUTHEASTERN ILLINOIS ECONOMIC DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)

FINANCIAL AUDITS
For the Four Years Ended June 30, 2009

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STATE OF ILLINOIS
SOUTHEASTERN ILLINOIS ECONOMIC DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)

AUTHORITY OFFICIALS

Executive Director

Andrew Hamilton

BOARD MEMBERS

Chairman

Sam Mateer

Vice-Chairman

D. R. Smith

Treasurer

Dan Ramey

DCEO Appointment

Joshua A. Weger

Member

Jim Rippy

Member

Bill Rosborough

Member

Marcia Scott

Authority offices are located at:

Mount Vernon Office
200 Potomac Boulevard
Mt. Vernon, Illinois 62864

Springfield Office
P.O. Box 13112
Springfield, Illinois 62791

STATE OF ILLINOIS
SOUTHEASTERN ILLINOIS ECONOMIC DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)

For the Year Ended June 30, 2006

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying financial statements of the State of Illinois, Southeastern Illinois Economic Development 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 Agency's internal control over financial reporting that they considered to be material weaknesses. The material weaknesses are described in the accompanying Schedule of Findings on pages 31-32 of this report, as finding 09-2 (*Noncompliance with Bylaws*), and finding 09-3 (*Bank Reconciliations Not Performed or Not Accurate*).

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with Authority personnel at an exit conference on April 20, 2010. Attending were:

Southeastern Illinois Economic Development Authority

Andrew Hamilton	Executive Director
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Freeborn & Peters, LLP

John Stevens	Partner
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Office of the Auditor General

Jon Fox	Manager
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Schorb & Schmersahl, LLC

Jim Schmersahl	Partner
Kate Meehan	Audit Associate

Responses to the recommendations were provided by Andrew Hamilton, in correspondence dated April 24, 2010.



SCHORB & SCHMERSAHL, LLC

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

EUGENE J. SCHORB, CPA
JAMES R. SCHMERSAHL, CPA

Honorable William G. Holland
Auditor General, State of Illinois
and
Mr. Sam Mateer
Chairman of the Board of Directors
Southeastern Illinois Economic Development Authority

As Special Assistant Auditors of the Auditor General, we have audited the accompanying financial statements of the State of Illinois, Southeastern Illinois Economic Development Authority as of and for the year ended June 30, 2006 as listed in the table of contents. These financial statements are the responsibility of State of Illinois, Southeastern Illinois Economic Development 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 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 D, State of Illinois, Southeastern Illinois Economic Development Authority prepares its financial statements on the cash basis of accounting, which is a comprehensive basis of accounting other than 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 financial position—cash basis of the State of Illinois, Southeastern Illinois Economic Development Authority, as of June 30, 2006, and the changes in financial position—cash basis, thereof for the year then ended in conformity with the basis of accounting described in Note D.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 27, 2010 on our consideration of the State of Illinois, Southeastern Illinois Economic Development Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of law, 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 results of our audit.

The State of Illinois, Southeastern Illinois Economic Development Authority has not presented a management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be a part of, the basic financial statements.


April 27, 2010

STATE OF ILLINOIS
SOUTHEASTERN ILLINOIS ECONOMIC DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)

STATEMENT OF
NET ASSETS – CASH BASIS

June 30, 2006

ASSETS

Checking/Savings Accounts Cash and cash equivalents	<u>\$8,303</u>
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TOTAL ASSETS	<u>\$8,303</u>
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NET ASSETS

Unrestricted	<u>\$8,303</u>
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TOTAL NET ASSETS	<u>\$8,303</u>
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STATE OF ILLINOIS
SOUTHEASTERN ILLINOIS ECONOMIC DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
NET ASSETS – CASH BASIS

For the Year Ended June 30, 2006

Operating Revenue	
Bond application fees	<u>\$12,000</u>
Operating Expenses	
Insurance	1,258
Marketing	200
Meeting	233
Office expense	335
Travel	<u>1,671</u>
Total Operating Expenses	<u>3,697</u>
Operating Income and Change in Net Assets	8,303
Net Assets, Beginning of Year	<u>-</u>
Net Assets, End of Year	<u>\$ 8,303</u>

STATE OF ILLINOIS
SOUTHEASTERN ILLINOIS ECONOMIC DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The Southeastern Illinois Economic Development Authority, a component unit of the State of Illinois, is a governmental entity, which was created by state statute. Its primary purpose is to promote industrial, commercial, residential service, transportation and recreational activities and facilities, thereby enhancing the employment opportunities, public health and general welfare in the Southeastern Illinois area.

B. Individual Component Unit Disclosure

Generally accepted accounting principles require that the reporting entity include (a) the primary government, (b) organizations for which the primary government is financially accountable and (c) other organizations for which the nature and significance of their relationships with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. For financial reporting purposes, the Authority is a component unit of the State of Illinois. The Authority does not treat any other reporting entities as component units.

C. Fund Accounting and Financial Statement Presentation

The Authority is considered to be a discretely presented component unit of the State of Illinois pursuant to GASB Statement No. 14 and is classified as an enterprise fund (proprietary fund type). Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that period determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

D. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and how they are reported in the financial statements. The Authority maintains its accounting records on the cash basis of accounting. Revenues are recognized when cash is received and expenses are recognized when cash is paid.

STATE OF ILLINOIS
SOUTHEASTERN ILLINOIS ECONOMIC DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

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

E. Accounting for Proprietary Fund Activities

Pursuant to GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds, the Authority has chosen the option to apply all applicable GASB pronouncements and all FASB Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements to the proprietary fund activities.

STATE OF ILLINOIS
SOUTHEASTERN ILLINOIS ECONOMIC DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)

For the Year Ended June 30, 2007

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying financial statements of the State of Illinois, Southeastern Illinois Economic Development 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 Agency's internal control over financial reporting that they considered to be material weaknesses or significant deficiencies. The material weaknesses are described in the accompanying Schedule of Findings on pages 29-33 of this report, as finding 09-1 (*Payment of Commissions Noncompliant with Grant Agreements*), 09-2 (*Noncompliance with Bylaws*), 09-3 (*Bank Reconciliations Not Performed or Not Accurate*), and 09-4 (*Locally Held Funds in Excess of Federally Insured Limits*). The significant deficiency is described in the accompanying Schedule of Findings on page 34 of this report, as finding 09-5 (*Lack of Appropriate Documentation Supporting Payments*).

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with Authority personnel at an exit conference on April 20, 2010. Attending were:

Southeastern Illinois Economic Development Authority

Andrew Hamilton	Executive Director
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Freeborn & Peters, LLP

John Stevens	Partner
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Office of the Auditor General

Jon Fox	Manager
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Schorb & Schmersahl, LLC

Jim Schmersahl	Partner
Kate Meehan	Audit Associate

Responses to the recommendations were provided by Andrew Hamilton, in correspondence dated April 24, 2010.



SCHORB & SCHMERSAHL, LLC

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

EUGENE J. SCHORB, CPA
JAMES R. SCHMERSAHL, CPA

Honorable William G. Holland
Auditor General, State of Illinois
and
Mr. Sam Mateer
Chairman of the Board of Directors
Southeastern Illinois Economic Development Authority

As Special Assistant Auditors of the Auditor General, we have audited the accompanying financial statements of the State of Illinois, Southeastern Illinois Economic Development Authority as of and for the year ended June 30, 2007 as listed in the table of contents. These financial statements are the responsibility of State of Illinois, Southeastern Illinois Economic Development 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 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 D, State of Illinois, Southeastern Illinois Economic Development Authority prepares its financial statements on the cash basis of accounting, which is a comprehensive basis of accounting other than 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 financial position—cash basis of the State of Illinois, Southeastern Illinois Economic Development Authority, as of June 30, 2007, and the changes in financial position—cash basis, thereof for the year then ended in conformity with the basis of accounting described in Note D.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 27, 2010 on our consideration of the State of Illinois, Southeastern Illinois Economic Development 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 results of our audit.

The State of Illinois, Southeastern Illinois Economic Development Authority has not presented a management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be a part of, the basic financial statements.


April 27, 2010

STATE OF ILLINOIS
SOUTHEASTERN ILLINOIS ECONOMIC DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)

STATEMENT OF
NET ASSETS – CASH BASIS

June 30, 2007

ASSETS

Checking/Savings Accounts	
Cash and cash equivalents	\$ 34,111
Restricted cash - Treasury Fund	<u>532,756</u>
Total Checking/Savings	<u>566,867</u>
TOTAL ASSETS	<u>\$566,867</u>

NET ASSETS

Unrestricted	\$ 34,111
Restricted	<u>532,756</u>
TOTAL NET ASSETS	<u>\$566,867</u>

STATE OF ILLINOIS
SOUTHEASTERN ILLINOIS ECONOMIC DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
NET ASSETS – CASH BASIS

For the Year Ended June 30, 2007

Operating Revenue	
Bond application fees	\$ 2,000
Grant award	600,000
Interest income	14,756
Bond issuance fees	<u>60,856</u>
Total Operating Revenue	677,612
Cost of Services – Success Fees	<u>29,119</u>
Net Operating Revenues	<u>648,493</u>
Operating Expenses	
Bank charges	20
Contractual services	66,000
Executive Director	15,000
Insurance	786
Marketing	2,888
Meeting	817
Postage	502
Telephone	853
Travel	<u>3,063</u>
Total Operating Expenses	<u>89,929</u>
Operating Income and Change in Net Assets	558,564
Net Assets, Beginning of Year	<u>8,303</u>
Net Assets, End of Year	<u>\$566,867</u>

STATE OF ILLINOIS
SOUTHEASTERN ILLINOIS ECONOMIC DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The Southeastern Illinois Economic Development Authority, a component unit of the State of Illinois, is a governmental entity, which was created by state statute. Its primary purpose is to promote industrial, commercial, residential service, transportation and recreational activities and facilities, thereby enhancing the employment opportunities, public health and general welfare in the Southeastern Illinois area.

B. Individual Component Unit Disclosure

Generally accepted accounting principles require that the reporting entity include (a) the primary government, (b) organizations for which the primary government is financially accountable and (c) other organizations for which the nature and significance of their relationships with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. For financial reporting purposes, the Authority is a component unit of the State of Illinois. The Authority does not treat any other reporting entities as component units.

C. Fund Accounting and Financial Statement Presentation

The Authority is considered to be a discretely presented component unit of the State of Illinois pursuant to GASB Statement No. 14 and is classified as an enterprise fund (proprietary fund type). Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that period determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

D. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and how they are reported in the financial statements. The Authority maintains its accounting records on the cash basis of accounting. Revenues are recognized when cash is received and expenses are recognized when cash is paid.

STATE OF ILLINOIS
SOUTHEASTERN ILLINOIS ECONOMIC DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

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

E. Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, Southeastern Illinois Economic Development Authority's deposits may not be returned to it. The Authority does not have a formal policy for custodial credit risk. The Authority maintained cash deposits in bank accounts which at times may have exceeded the federally insured limits. The balance is insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000 for each depositor. The uninsured and uncollateralized balance at June 30, 2007 was \$527,752. The Authority did not experience a loss in this account.

F. Net Assets

In the financial statements, net assets are displayed in two components as follows:

Restricted—This consists of net assets that are restricted by grantors. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first, then unrestricted resources when they are needed. As of June 30, 2007, the Authority had restricted net assets (Restricted cash – Treasury Fund) of \$532,756, of which all is restricted by grantors.

Unrestricted—This consists of net assets that do not meet the definition of "restricted" or "invested in capital assets."

G. Accounting for Proprietary Fund Activities

Pursuant to GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds, the Authority has chosen the option to apply all applicable GASB pronouncements and all FASB Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements to the proprietary fund activities.

STATE OF ILLINOIS
SOUTHEASTERN ILLINOIS ECONOMIC DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)

For the Year Ended June 30, 2008

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying financial statements of the State of Illinois, Southeastern Illinois Economic Development 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 Agency's internal control over financial reporting that they considered to be material weaknesses or significant deficiencies. The material weaknesses are described in the accompanying Schedule of Findings on pages 29-33 of this report, as finding 09-1 (*Payment of Commissions Noncompliant with Grant Agreements*), 09-2 (*Noncompliance with Bylaws*), 09-3 (*Bank Reconciliations Not Performed or Not Accurate*), and 09-4 (*Locally Held Funds in Excess of Federally Insured Limits*). The significant deficiency is described in the accompanying Schedule of Findings on page 34 of this report, as finding 09-5 (*Lack of Appropriate Documentation Supporting Payments*).

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with Authority personnel at an exit conference on April 20, 2010. Attending were:

Southeastern Illinois Economic Development Authority

Andrew Hamilton	Executive Director
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Freeborn & Peters, LLP

John Stevens	Partner
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Office of the Auditor General

Jon Fox	Manager
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Schorb & Schmersahl, LLC

Jim Schmersahl	Partner
Kate Meehan	Audit Associate

Responses to the recommendations were provided by Andrew Hamilton, in correspondence dated April 24, 2010.



Honorable William G. Holland
Auditor General, State of Illinois
and
Mr. Sam Mateer
Chairman of the Board of Directors
Southeastern Illinois Economic Development Authority

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the State of Illinois, Southeastern Illinois Economic Development Authority as of and for the year ended June 30, 2008 as listed in the table of contents. These financial statements are the responsibility of State of Illinois, Southeastern Illinois Economic Development 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 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 D, State of Illinois, Southeastern Illinois Economic Development Authority prepares its financial statements on the cash basis of accounting, which is a comprehensive basis of accounting other than 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 financial position—cash basis of the State of Illinois, Southeastern Illinois Economic Development Authority, as of June 30, 2008, and the changes in financial position—cash basis, thereof for the year then ended in conformity with the basis of accounting described in Note D.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 27, 2010 on our consideration of the State of Illinois, Southeastern Illinois Economic Development 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 results of our audit.

The State of Illinois, Southeastern Illinois Economic Development Authority has not presented a management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

April 27, 2010

STATE OF ILLINOIS
SOUTHEASTERN ILLINOIS ECONOMIC DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)

STATEMENT OF
NET ASSETS – CASH BASIS

June 30, 2008

ASSETS

Checking/Savings Accounts	
Cash and cash equivalents	\$ 15,909
Restricted Cash - Treasury Fund	<u>180,759</u>
Total Checking/Savings	<u>196,668</u>
TOTAL ASSETS	<u>\$196,668</u>

NET ASSETS

Unrestricted	\$ 15,909
Restricted	<u>180,759</u>
TOTAL NET ASSETS	<u>\$196,668</u>

STATE OF ILLINOIS
SOUTHEASTERN ILLINOIS ECONOMIC DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
NET ASSETS – CASH BASIS

For the Year Ended June 30, 2008

Operating Revenue	
Interest income	\$ 13,101
Cost of Services – Success Fees	<u>10,000</u>
Net Operating Revenues	<u>3,101</u>
Operating Expenses	
Accounting	845
Bank charges	278
Contractual services	348,100
Executive Director	16,500
Insurance	2,454
Marketing	220
Meeting	103
Postage	134
Support services	2,000
Travel	<u>2,666</u>
Total Operating Expenses	<u>373,300</u>
Operating Loss and Change in Net Assets	(370,199)
Net Assets, Beginning of Year	<u>566,867</u>
Net Assets, End of Year	<u>\$196,668</u>

STATE OF ILLINOIS
SOUTHEASTERN ILLINOIS ECONOMIC DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The Southeastern Illinois Economic Development Authority, a component unit of the State of Illinois, is a governmental entity, which was created by state statute. Its primary purpose is to promote industrial, commercial, residential service, transportation and recreational activities and facilities, thereby enhancing the employment opportunities, public health and general welfare in the Southeastern Illinois area.

B. Individual Component Unit Disclosure

Generally accepted accounting principles require that the reporting entity include (a) the primary government, (b) organizations for which the primary government is financially accountable and (c) other organizations for which the nature and significance of their relationships with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. For financial reporting purposes, the Authority is a component unit of the State of Illinois. The Authority does not treat any other reporting entities as component units.

C. Fund Accounting and Financial Statement Presentation

The Authority is considered to be a discretely presented component unit of the State of Illinois pursuant to GASB Statement No. 14 and is classified as an enterprise fund (proprietary fund type). Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that period determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

D. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and how they are reported in the financial statements. The Authority maintains its accounting records on the cash basis of accounting. Revenues are recognized when cash is received and expenses are recognized when cash is paid.

STATE OF ILLINOIS
SOUTHEASTERN ILLINOIS ECONOMIC DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

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

E. Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, Southeastern Illinois Economic Development Authority's deposits may not be returned to it. The Authority does not have a formal policy for custodial credit risk. The Authority maintained cash deposits in bank accounts which at times may have exceeded the federally insured limits. The balance is insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000 for each depositor. The Authority had uninsured and uncollateralized balances of up to \$527,752 through November 27, 2007. Beginning November 28, 2007, all deposit balances were either insured or collateralized by securities held by a financial institution in the Authority's name. The Authority did not experience a loss in this account.

F. Net Assets

In the financial statements, net assets are displayed in two components as follows:

Restricted—This consists of net assets that are restricted by grantors. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first, then unrestricted resources when they are needed. As of June 30, 2008, the Authority had restricted net assets (Restricted cash – Treasury Fund) of \$180,759, of which all is restricted by grantors.

Unrestricted—This consists of net assets that do not meet the definition of "restricted" or "invested in capital assets."

G. Accounting for Proprietary Fund Activities

Pursuant to GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds, the Authority has chosen the option to apply all applicable GASB pronouncements and all FASB Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements to the proprietary fund activities.

STATE OF ILLINOIS
SOUTHEASTERN ILLINOIS ECONOMIC DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)

For the Year Ended June 30, 2009

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying financial statements of the State of Illinois, Southeastern Illinois Economic Development Authority was performed by Schorb & Schmersahl, LLC.

Based on their audit, the auditors expressed a qualified opinion, due to substantial doubt about the Authority's ability to continue as a going concern, on the Authority's basic financial statements.

SUMMARY OF FINDINGS

The auditors identified matters involving the Agency's internal control over financial reporting that they considered to be material weaknesses or significant deficiencies. The material weaknesses are described in the accompanying Schedule of Findings on pages 29-31 of this report, as finding 09-1 (*Payment of Commissions Noncompliant with Grant Agreements*), and 09-2 (*Noncompliance with Bylaws*). The significant deficiency is described in the accompanying Schedule of Findings on page 34 of this report, as finding 09-5 (*Lack of Appropriate Documentation Supporting Payments*).

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with Authority personnel at an exit conference on April 20, 2010. Attending were:

Southeastern Illinois Economic Development Authority

Andrew Hamilton	Executive Director
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Freeborn & Peters, LLP

John Stevens	Partner
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Office of the Auditor General

Jon Fox	Manager
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Schorb & Schmersahl, LLC

Jim Schmersahl	Partner
Kate Meehan	Audit Associate

Responses to the recommendations were provided by Andrew Hamilton, in correspondence dated April 24, 2010.



INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland
Auditor General, State of Illinois
and
Mr. Sam Mateer
Chairman of the Board of Directors
Southeastern Illinois Economic Development Authority

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the State of Illinois, Southeastern Illinois Economic Development Authority as of and for the year ended June 30, 2009 as listed in the table of contents. These financial statements are the responsibility of State of Illinois, Southeastern Illinois Economic Development 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 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 D, State of Illinois, Southeastern Illinois Economic Development Authority prepares its financial statements on the cash basis of accounting, which is a comprehensive basis of accounting other than 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 financial position—cash basis of the State of Illinois, Southeastern Illinois Economic Development Authority, as of June 30, 2009, and the changes in financial position—cash basis, thereof for the year then ended in conformity with the basis of accounting described in Note D.

The accompanying financial statements have been prepared assuming that the State of Illinois, Southeastern Illinois Economic Development Authority, will continue as a going concern. As discussed in Note F to the financial statements, the State of Illinois, Southeastern Illinois Economic Development Authority's significant losses and lack of cash and net assets raise substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 27, 2010 on our consideration of the State of Illinois, Southeastern Illinois Economic Development 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 of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The State of Illinois, Southeastern Illinois Economic Development Authority has not presented a management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

A handwritten signature in cursive script that reads "Arthur & Associates, LLC".

April 27, 2010

STATE OF ILLINOIS
SOUTHEASTERN ILLINOIS ECONOMIC DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)

STATEMENT OF
NET ASSETS – CASH BASIS

June 30, 2009

ASSETS

Checking/Savings Accounts Cash and cash equivalents	<u>\$1,000</u>
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TOTAL ASSETS	<u>\$1,000</u>
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NET ASSETS

Unrestricted	<u>\$1,000</u>
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TOTAL NET ASSETS	<u>\$1,000</u>
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STATE OF ILLINOIS
SOUTHEASTERN ILLINOIS ECONOMIC DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
NET ASSETS – CASH BASIS

For the Year Ended June 30, 2009

Operating Revenue	
Interest income	<u>\$ 238</u>
Operating Expenses	
Accounting	27,104
Contractual services	155,250
Bank charges	40
Executive Director	12,000
Marketing	220
Meeting	127
Travel	<u>1,165</u>
Total Operating Expenses	<u>195,906</u>
Operating Loss and Change in Net Assets	(195,668)
Net Assets, Beginning of Year	<u>196,668</u>
Net Assets, End of Year	<u>\$ 1,000</u>

STATE OF ILLINOIS
SOUTHEASTERN ILLINOIS ECONOMIC DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The Southeastern Illinois Economic Development Authority, a component unit of the State of Illinois, is a governmental entity, which was created by state statute. Its primary purpose is to promote industrial, commercial, residential service, transportation and recreational activities and facilities, thereby enhancing the employment opportunities, public health and general welfare in the Southeastern Illinois area.

B. Individual Component Unit Disclosure

Generally accepted accounting principles require that the reporting entity include (a) the primary government, (b) organizations for which the primary government is financially accountable and (c) other organizations for which the nature and significance of their relationships with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. For financial reporting purposes, the Authority is a component unit of the State of Illinois. The Authority does not treat any other reporting entities as component units.

C. Fund Accounting and Financial Statement Presentation

The Authority is considered to be a discretely presented component unit of the State of Illinois pursuant to GASB Statement No. 14 and is classified as an enterprise fund (proprietary fund type). Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that period determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

D. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and how they are reported in the financial statements. The Authority maintains its accounting records on the cash basis of accounting. Revenues are recognized when cash is received and expenses are recognized when cash is paid.

STATE OF ILLINOIS
SOUTHEASTERN ILLINOIS ECONOMIC DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

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

E. Accounting for Proprietary Fund Activities

Pursuant to GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds, the Authority has chosen the option to apply all applicable GASB pronouncements and all FASB Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements to the proprietary fund activities.

F. Going Concern

The Authority incurred a net loss of \$370,199 during the previous year ended June 30, 2008 and incurred a net loss of \$195,668 during the current year ended June 30, 2009, and as of that date, the Authority's total assets are \$1,000. In addition, the Authority has approximately \$10,000 in unpaid invoices at June 30, 2009 which are not reflected in the cash basis financial statements. The Authority last closed on a bond issue in December 2006. These factors, as well as uncertainty about future bond issues, create doubt about the Authority's ability to continue as a going concern. Management is developing plans to generate revenues and to reduce operating costs and has deferred payment of expenses until the finalization of future bond issues. The ability of the Authority to continue as a going concern is dependent upon the success of these efforts. The financial statements do not include any adjustments that might be necessary if the Authority is unable to continue as a going concern.



**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
and
Mr. Sam Mateer
Chairman of the Board of Directors
Southeastern Illinois Economic Development Authority

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the State of Illinois—Southeastern Illinois Economic Development Authority (the “Authority”) as of and for the years ended June 30, 2006, 2007, 2008 and 2009 and have issued our reports thereon dated April 27, 2010. In our reports for the years ended June 30, 2006, 2007, 2008 and 2009, we noted that the Authority prepares its financial statements on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. In addition, in our report for the year ended June 30, 2009 our opinion was qualified due to substantial doubt about the Authority’s ability to continue as a going concern. We conducted our audits 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

In planning and performing our audits, we considered the Authority’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements and 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in findings 09-1, 09-2, 09-3, and 09-4 in the accompanying schedule of findings to be material weaknesses.

A *significant deficiency* is a deficiency or 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. We consider the deficiency described in finding 09-5 in the accompanying schedule of findings to be a significant deficiency.

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 audits, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as items 09-1 and 09-2.

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

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



Columbia, Illinois
April 27, 2010

State of Illinois—Southeastern Illinois Economic Development Authority
SCHEDULE OF FINDINGS
CURRENT FINDINGS – Government Auditing Standards
For the Four Years Ended June 30, 2006, 2007, 2008, and 2009

FINDING 09-1. Payment of Commissions Noncompliant with Grant Agreements

The Southeastern Illinois Economic Development Authority (Authority) paid a commission of \$20,000 to the Executive Director for grants received in noncompliance with the grant agreements.

A component of the Executive Director’s contract states he will receive a Success Fee of one-third of any fee income received by the Authority, contingent upon the successful receipt of that fee income and attributable to the Executive Director. In Fiscal Year 2007, the Authority received three grants from the Illinois Department of Commerce and Economic Opportunity (DCEO) totaling \$600,000. The administration portion of the grants totaled 10% or \$60,000. The Authority paid a Success Fee to the Executive Director of one-third of the grant administration total or \$20,000.

Each of the three DCEO grant agreements states the grantee shall not pay any bonus or commission for the purpose of obtaining the grant awarded under the agreement.

Authority personnel state that the \$20,000 was not a commission for obtaining the grant but was, instead, additional payment to the Executive Director for the extra work needed to administer the grant.

The payment of commissions for grant awards is a violation of the terms of the grant agreements. (Finding Code No. 09-1)

RECOMMENDATION

We recommend the Authority seek repayment of the \$20,000 paid to the Executive Director in violation of the terms of the grant agreement.

AUTHORITY RESPONSE

We respectfully disagree with the Auditor General’s conclusion that the Authority paid its Executive Director a “bonus or commission for the purpose of obtaining” the grants which the Authority received from the Department of Commerce and Economic Opportunity. The records maintained by the Authority clearly indicate that the Executive Director was paid compensation for the administration of the grants, which payments are indisputably allowable under the terms of the grants.

This finding and recommendation appears to be based on the Auditor General’s belief that under the Executive Director’s employment agreement, the Executive Director would have been entitled to compensation based solely upon the award of the grant to the Authority, without the necessity of performing administrative duties under the grants. Unfortunately, the Auditor General believes that this hypothetical entitlement to “compensation without services” requires the issuance of this finding and recommendation, notwithstanding the presentation of the Authority’s records of demonstrating the actual performance of administrative duties.

Illinois—Southeastern Illinois Economic Development Authority
SCHEDULE OF FINDINGS
CURRENT FINDINGS – Government Auditing Standards (*Continued*)
For the Four Years Ended June 30, 2006, 2007, 2008, and 2009

FINDING 09-1. Payment of Commissions Noncompliant with Grant Agreements (*Continued*)

AUTHORITY RESPONSE (*Continued*)

Similarly, the Auditor General has advised the Authority that because the Executive Director's compensation was calculated as a percentage of the administration fees received by the Authority, it constitutes a "commission" prohibited under the grant, notwithstanding the State of Authority's presentation of documents establishing that the payments were not made "for the purpose of obtaining" the grants, which would have been prohibited by the grant agreements. The stated reason for refusing to acknowledge the Authority's evidence indicating the purpose of these payments is that the determination of the "purpose" of the payments is a subjective matter, not subject to audit.

In order to resolve this issue, the Authority will amend its agreement with the Executive Director to clearly delineate that compensation arising from receipt of the grants is payable only for grant administration and that no compensation is payable for the purpose of obtaining the grants.

AUDITORS' COMMENT

We are encouraged that the Authority indicated in its response that it is taking steps to resolve the condition described in the finding. It is important to note that the resolution proposed by the Authority will require Board approval. We stand by the conclusion that we reached that the Executive Director was paid \$20,000 under the Success fee formula of his compensation agreement in noncompliance with the grant agreement.

The Executive Director's contract allows for two types of compensation, a monthly compensation of \$2,000 per month and a Success fee of 1/3 of any fee income received by the Authority. The contract states, "The Success Fee will be contingent on successful receipt of fee income and attributable to [the Executive Director] during the then current term of this agreement even if fee income is received after the expiration of this agreement..." The Authority acknowledges that it paid the \$20,000 from the grant to the Executive Director under the Success fee percentage formula of his compensation agreement. The grant agreement states, "The Grantee shall not pay any bonus or commission for the purpose of obtaining the grant awarded under this agreement."

In its response the Authority characterizes the Success fee payments as compensation to the Executive Director for administering the grant and not for the purpose of obtaining the grant. Regardless of the Authority's representations of the intent for the payment, this payment was paid by the terms of his contract as a type of "commission" called a Success fee for receipt of fee income "attributable to the Executive Director". Under the terms of his compensation agreement the only obligation on the Executive Director to receive this compensation is receipt of the fee income – even if receipt is after the termination of the agreement and for up to 12 months thereafter. The Executive Director's payment for a Success fee under the terms of his agreement makes no mention of any further obligation to perform "administrative duties" as asserted by the Authority. Given the two agreements as they were written, we stand by our conclusion that the Authority paid the Executive Director a \$20,000 commission in violation of the terms of the grant agreement.

State of Illinois—Southeastern Illinois Economic Development Authority
SCHEDULE OF FINDINGS
CURRENT FINDINGS – Government Auditing Standards (*Continued*)
For the Four Years Ended June 30, 2006, 2007, 2008, and 2009

FINDING 09-2. Noncompliance with By-Laws

The Southeastern Illinois Economic Development Authority (Authority) did not obtain annual audits or prepare annual budgets as required by its bylaws.

The Authority officially began operations in the fiscal year ended June 30, 2006. During our audit of the four fiscal years ended June 30, 2009 we noted the Authority did not have an annual audit or examination of its books and records for fiscal years 2006, 2007 or 2008 as required by its bylaws. In addition we noted the Authority did not prepare an annual budget for fiscal years 2007, 2008 or 2009 for the January Board of Directors meeting preceding each fiscal year as required by the bylaws.

Article VI, Section 1 of the Authority’s Bylaws states the “accounts and books of the Authority, including its receipts, disbursements, contracts, and other matters related to its finances, operation and affairs, shall be examined at the end of each fiscal year by an Audit Committee appointed by the Chairman of the Board or a firm of certified public accountants, who shall certify their audit to the Auditor General of the State of Illinois within 120 days after the start of each fiscal year.”

Article V, Section 3 of the Authority’s Bylaws states the “Executive Director shall prepare a tentative budget for consideration by the members of the Board no later than the regularly scheduled January meeting of each year.”

Authority personnel stated that the Audit Committee examined the printed general ledger register and the bank statements at the end of each year, thereby eliminating the need for an audit by an external auditor. However, there is no documentation to support the review by the Audit Committee.

The failure to conduct annual audits or examinations of the Authority’s books and records and the failure to prepare annual budgets deprives the Authority of tools to insure fiscal responsibility created at the Authority’s inception in its bylaws. (Finding Code No. 09-2)

RECOMMENDATION

We recommend the Authority conduct an annual audit or examination of the Authority’s books and records and prepare an annual budget as required by its bylaws. Further, if an Audit Committee appointed by the Board examines the books and records, we recommend that documentation of its review be maintained by the Authority.

AUTHORITY RESPONSE

The Authority agrees with this finding and recommendation. Going forward, the Authority will take formal action to appoint an Audit Committee and retain documentation of the Audit Committee’s review of the books and records of the Authority. The Authority will also prepare and retain documentation of an annual budget.

State of Illinois—Southeastern Illinois Economic Development Authority
SCHEDULE OF FINDINGS
CURRENT FINDINGS – Government Auditing Standards (*Continued*)
For the Four Years Ended June 30, 2006, 2007, 2008, and 2009

FINDING 09-3. Bank Reconciliations Not Performed or Not Accurate

There is no documentation to support that the Southeastern Illinois Economic Development Authority (Authority) performed regular bank reconciliations during the fiscal years ended June 30, 2006, 2007 and 2008. In addition, the bank reconciliations that were performed were inaccurate.

There are no bank reconciliations for the following periods:

- FYE 6/30/06 (Operating Account), bank balance \$8,302.99
- FYE 6/30/07 (Grant Account), bank balance \$532,756.39
- FYE 6/30/08 (Grant Account), bank balance \$180,758.63

The following bank reconciliations were inaccurate:

- FYE 6/30/07 (Operating Account) – Three outstanding checks totaling \$60,355 written in fiscal year 2007 were not posted until fiscal year 2008; a \$150 void check and \$97 credit were improperly included in the bank reconciliation; and the correct ending cash balance of \$34,111 did not agree with the \$(23,359) overdraft cash balance presented in the annual financial statements submitted to the Auditor General.
- FYE 6/30/08 (Operating Account) – The ending cash balance of \$15,910 did not agree with the general ledger and financial statement balance of \$17,276 because of an improper credit in the general ledger of \$1,366.

A good system of internal controls requires that the Authority books and records be reconciled to bank statements monthly.

Authority personnel stated that the bank reconciliations were performed at least quarterly in order to complete the Report of Receipts and Disbursements for the Comptroller's Office but the Authority was not able to produce any documentation of the quarterly reconciliations.

A lack of timely and accurate bank reconciliations increases the likelihood that an improper expenditure or misappropriation of funds could occur and would not be found in the normal course of business. In addition, due to the incorrect bank reconciliations, the FYE 07 and FYE 08 cash and investment totals on the financial statements were misstated as noted above. The auditors did not detect any loss of funds in their sample testing. (Finding Code No. 09-3)

RECOMMENDATION

We recommend the Authority prepare monthly bank reconciliations and take greater care to insure that they are prepared accurately.

AUTHORITY RESPONSE

The Authority agrees with this finding and recommendation. Going forward, the Authority will prepare accurate monthly bank reconciliations.

State of Illinois—Southeastern Illinois Economic Development Authority
SCHEDULE OF FINDINGS
CURRENT FINDINGS – Government Auditing Standards (*Continued*)
For the Four Years Ended June 30, 2006, 2007, 2008, and 2009

FINDING 09-4. Locally Held Funds in Excess of Federally Insured Limit

The Southeastern Illinois Economic Development Authority's (Authority) bank balances exceeded the Federal Deposit Insurance Corporation (FDIC) limits during fiscal years 2007 and 2008.

In fiscal year 2007, the Authority received a total of \$600,000 in grants from the Illinois Department of Commerce and Economic Opportunity and the funds were expended during fiscal year 2007 and 2008. At June 30, 2007, the Authority held funds of \$527,752 in excess of the Federal insured limit of \$100,000. Beginning November 28, 2007, the Authority obtained pledged securities of \$500,000 to collateralize its uninsured balance of \$458,556. At June 30, 2008, the Authority held pledged securities of approximately \$500,000 that collateralized the bank balances in excess of the FDIC limit. At June 30, 2009, the Authority had no bank amounts in excess of the FDIC limit.

A good system of internal controls would recommend that bank balances be insured against loss in the event of a bank failure.

Authority personnel stated that when the bank accounts were established, repurchase agreements were obtained to cover the excess of funds over FDIC limits.

Without appropriate insurance, the Authority's funds are at risk and would be vulnerable if the depositories were to fail. The Authority did not incur any losses in connection with the uninsured funds. (Finding Code No. 09-4)

RECOMMENDATION

We recommend the Authority monitor its interest bearing account and reduce its risk by obtaining collateral for the amounts in excess of federal insurance or invest in government backed obligations, as was done by the Authority in November 2007. If that is not feasible, then the interest bearing bank accounts should be limited to the FDIC insured amount.

AUTHORITY RESPONSE

The Authority agrees with this finding and recommendation. In the future, the Authority will obtain collateral for deposits in excess of federal insurance limits, without any gaps in coverage, as was noted by the Auditor General in this finding.

State of Illinois—Southeastern Illinois Economic Development Authority
SCHEDULE OF FINDINGS
CURRENT FINDINGS – Government Auditing Standards (*Continued*)
For the Four Years Ended June 30, 2006, 2007, 2008, and 2009

FINDING 09-5. Lack of Appropriate Documentation Supporting Payments

The Southeastern Illinois Economic Development Authority (Authority) did not have appropriate supporting documentation for automatic payments to the Executive Director.

The Executive Director is paid monthly compensation, a Success Fee of one-third of the fee income received by the Authority and reimbursement of travel expenses under the terms of a contract commencing July 1, 2005. During the four years being audited, the Authority, at times, did not have enough cash to pay the Executive Director all of the fees and compensation due to him. Those accrued fees were paid to the Executive Director on an amortized basis when the Authority had available funding at the rate of \$500 per month. Until April 2007, invoices supported the payments, detailing how much was salary, how much was amortized salary and how much represented Success Fees.

Beginning in April 2007 the Authority began paying the Executive Director via Electronic Funds Transfers (EFT). At that time, no more invoices were given to the Board to support the amounts paid to the Executive Director, except for his travel expense reimbursements. The Authority paid the Executive Director \$70,666 in Success fees, monthly compensation and amortized fees and compensation by EFT after April 2007. From an analysis performed by auditors comparing contractual amounts due to the Executive Director to actual payments made, the Authority overpaid Success fees to the Executive Director of \$20,667 offset by \$30,000 of unpaid monthly compensation leaving a net balance due to the Executive Director of \$9,333 at June 30, 2009. The \$20,667 overpayment of Success fees includes the \$20,000 fee paid for the grants previously detailed in Finding 09-1.

A good system of internal controls requires adequate supporting documentation for Authority payments. Given the complexity of the Executive Director's compensation, a detail invoice presenting the Board with a full accounting prior to payment is a warranted improvement in internal controls of cash disbursements.

Authority personnel stated that, although no invoices were produced for the amortized back pay after April 2007, the Treasurer's packet for the Board meetings included a report on the bills paid since the prior Board meeting and this report was reviewed by the Treasurer.

A lack of appropriate documentation supporting payments increases the likelihood that an improper expenditure or misappropriation of funds could occur and would not be found in the normal course of business. (Finding Code No. 09-5)

RECOMMENDATION

We recommend the Authority support all expenditures with appropriate documentation.

AUTHORITY REPOSENSE

The Authority agrees with this finding and recommendation. In the future, the Authority will generate invoices detailing all of the Authority's expenditures, including invoices documenting the various components of the Executive Director's compensation.