

SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY
SPECIAL LIMITED SCOPE COMPLIANCE EXAMINATION

For the Two Years Ended June 30, 2008

**SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY
SPECIAL LIMITED SCOPE COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2008**

TABLE OF CONTENTS

	<u>Page</u>
Agency Officials	1
Management Assertion Letter	2
Compliance Report	
Summary	3
Accountants' Report	
Independent Accountants' Report on Special Limited State Compliance Testing, and on Supplementary Information for State Compliance Purposes	5
Schedule of Findings	
Current Findings – State Compliance	7
Prior Findings Not Repeated	9
Supplementary Information for State Compliance Purposes	
Summary	10
Fiscal Schedules and Analysis	
Schedule of Appropriations, Expenditures and Lapsed Balances	11
Comparative Schedule of Net Appropriations, Expenditures, and Lapsed Balances	13
Comparative Schedule of Cash Receipts	14
Analysis of Significant Variations in Expenditures	15
Analysis of Significant Variations in Receipts	17
Report Comments	18

AGENCY OFFICIALS

SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY

Executive Director

Mr. Michael Lundy

Assistant Executive Director

Mr. Joe Gasparich

Authority office is located at:

1022 Eastport Plaza Drive
Collinsville, IL 62234

Members of the Board:
Robert Lombardi, Chair
Khalil El-Amin
Robert D. Halsey
Barbara S. Johnson
Ed McMillan
David A. Miller
James S. Nations
Robert L. Plummer
Roger E. Poole
Reggie A. Sparks
Jim Sullivan



Ex. Officio:
Warren Ribley
Maureen T. O'Donnell

Executive Director:
Michael J. Lundy

Serving the Counties of Bond, Clinton, Madison and St. Clair

Assistant Executive Director
Joe Gasparich, MBA, CPA

May 7, 2009

Honorable William G. Holland
Auditor General
Iles Park Plaza
740 East Ash Street
Springfield, IL 62703
Attn: Lisa Warden, Audit Manager

Dear Auditor General Holland:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the Southwestern Illinois Development Authority (Authority). 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 Authority's compliance with the following assertions during the two-year period ended June 30, 2008. Based on this evaluation, we assert that during the years ended June 30, 2007 and June 30, 2008, the Authority has materially complied with the assertions below, except for certain certifications required by assertion C.

- A. The Authority has received and expended public funds of the State in accordance with the purposes for which such funds have been appropriated or otherwise authorized by law.
- B. The Authority has expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such expenditure, receipt or use.
- C. The Authority has submitted its annual certifications of debt service requirements to the Governor of Illinois as required by law.

Yours very truly,

Southwestern Illinois Development Authority


Mr. Michael Lundy, Executive Director

COMPLIANCE REPORT

SUMMARY

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

ACCOUNTANTS' REPORT

The Independent Accountants' Report on Special Limited State Compliance Testing, and on Supplementary Information for State Compliance Purposes does not contain scope limitations, disclaimers, or other significant non-standard language.

SUMMARY OF FINDINGS

<u>Number of</u>	<u>This Report</u>	<u>Prior Report</u>
Findings	1	0
Repeated findings	0	0
Prior recommendations implemented or not repeated	0	0

Details of the finding are presented in the separately tabbed report section of this report.

SCHEDULE OF FINDINGS

FINDINGS (STATE COMPLIANCE)

<u>Item No.</u>	<u>Page</u>	<u>Description</u>	<u>Finding Type</u>
08-1	7	Failure to submit required certifications to the Governor	Material Noncompliance

PRIOR FINDINGS NOT REPEATED

There were no material findings noted during the special limited scope compliance examination for the two years ended June 30, 2006.

EXIT CONFERENCE

The finding and recommendation appearing in this report were discussed with Authority personnel at an exit conference on April 30, 2009. Attending were:

Southwestern Illinois Development Authority

Michael Lundy, Executive Director
Joe Gasparich, Assistant Executive Director
Karen Poole, Administrative Assistant

Office of the Auditor General

Lisa Warden, Audit Manager
Courtney Dzierwa, Audit Supervisor
Blake Reed, Auditor

A response to the recommendation was provided on May 7, 2009 by Michael Lundy, Executive Director.

SPRINGFIELD OFFICE:

ILES PARK PLAZA
740 EAST ASH • 62703-3154
PHONE: 217/782-6046

FAX: 217/785-8222 • TTY: 888/261-2887



CHICAGO OFFICE:

MICHAEL A. BILANDIC BLDG. • SUITE S-900
160 NORTH LASALLE • 60601-3103
PHONE: 312/814-4000
FAX: 312/814-4006

OFFICE OF THE AUDITOR GENERAL

WILLIAM G. HOLLAND

INDEPENDENT ACCOUNTANTS' REPORT ON SPECIAL LIMITED STATE
COMPLIANCE TESTING, AND ON SUPPLEMENTARY INFORMATION FOR STATE
COMPLIANCE PURPOSES

Honorable William G. Holland
Auditor General
State of Illinois

Compliance

We have examined the Southwestern Illinois Development Authority's (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 for the appropriations made by the Illinois General Assembly to the Authority from the General Revenue Fund (001) and for the grant received from the Illinois Department of Commerce and Economic Opportunity during the two years ended June 30, 2008. 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 received and expended public funds of the State in accordance with the purposes for which such funds have been appropriated or otherwise authorized by law.
- B. The Authority has expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such expenditure, receipt or use.
- C. The Authority has submitted its annual certifications of debt service requirements to the Governor of Illinois as required by law.

We conducted our special limited scope compliance examination 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.

Our special limited scope compliance examination was restricted to appropriations made by the Illinois General Assembly to the Authority from the General Revenue Fund and related expenditures, as well as the grant received from the Illinois Department of Commerce and Economic Opportunity during fiscal years 2007 and 2008.

As described in finding 08-1 in the accompanying schedule of findings, the Authority did not comply with requirements regarding the submission of annual certifications of debt service requirements to the Governor of Illinois as required by law. Compliance with such requirements is necessary, in our opinion, for the Authority to comply with the requirements listed in the first paragraph of this report.

In our opinion, except for the noncompliance described in the preceding paragraph, the Authority complied, in all material respects, with the requirements listed in the first paragraph of this report during the two years ended June 30, 2008.

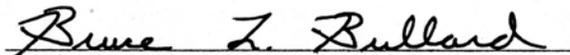
As required by the Audit Guide, an immaterial finding excluded from this report has been reported in a separate letter.

Supplementary Information for State Compliance Purposes

Our examination was conducted for the purpose of forming an opinion on compliance with the requirements listed in the first paragraph of this report. The accompanying supplementary information as listed in the table of contents as Supplementary Information for State Compliance Purposes is presented for purposes of additional analysis. We have applied certain limited procedures as prescribed by the Audit Guide, as adopted by the Auditor General to the 2007 and 2008 Supplementary Information for State Compliance Purposes. However, we do not express an opinion on the supplementary information.

We have not applied procedures to the 2006 Supplementary Information for State Compliance Purposes, and accordingly, we do not express an opinion thereon.

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.


BRUCE L. BULLARD, CPA
Director of Financial and Compliance Audits

May 7, 2009

SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY
SCHEDULE OF FINDINGS
For the Two Years Ended June 30, 2008

08-1. **FINDING** (Failure to submit required certifications to the Governor)

The Southwestern Illinois Development Authority (Authority) did not certify to the Governor the amounts required by the Authority to enable it to replenish the debt service reserve funds for its bonds for Fiscal Years 2008 and 2009.

During the current examination period, the Authority did not prepare and submit 8 of 8 (100%) required certifications to the Governor, certifying the amounts required to replenish the debt service reserve funds to the required minimum balances.

The Southwestern Illinois Development Authority Act (Act) (70 ILCS 520/7(f)) states in the event of a withdrawal of monies from the debt service reserve fund of the Authority's bonds for the payment of the principal of and interest on its bonds, the Chairman, as soon as practicable, shall certify to the Governor the amount required by the Authority to enable it to restore the debt service reserve fund to the level required in the resolution or indenture securing those bonds.

Authority management stated the Governor's Office of Management and Budget (GOMB) annually initiated contact with the Authority to request the appropriation amounts required to satisfy the State's moral obligation. Management thought annual certifications to the Governor were not necessary since GOMB accepted the amounts supplied by the Authority without any formal certifications. Further, management stated loan agreements required the Authority to submit written notice to the Governor upon notification by obligors of anticipated funding shortages for principal and interest payments. Management stated some obligors did not provide such notice and management was not aware that certifications to the Governor were still required. The Authority received annual appropriations of \$3,602,611 and \$3,515,300 in Fiscal Years 2008 and 2009, respectively.

Failure to certify amounts required to replenish the debt service reserve fund for the principal of and interest on bonds circumvents appropriation controls implemented by the legislature. In addition, failure to prepare and submit certifications to the Governor is noncompliance with the Act. (Finding Code No. 08-1)

RECOMMENDATION

We recommend the Authority timely certify to the Governor the annual amounts required to pay the principal and interest and to replenish the debt service reserve funds for its bonds as required by the Act.

SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY
SCHEDULE OF FINDINGS
For the Two Years Ended June 30, 2008

AGENCY RESPONSE

SWIDA provided written response to the Governor's Office of Management and Budget staff's request for appropriation amounts required during the two year examination period ending June 30, 2008. Formal written certifications, as required by SWIDA's legislation, will be submitted for future appropriation requests.

SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY
SCHEDULE OF FINDINGS
For the Two Years Ended June 30, 2008

Prior Findings Not Repeated

There were no material findings noted during the special limited scope compliance examination for the two years ended June 30, 2006.

SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES

SUMMARY

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 Cash Receipts
 - Analysis of Significant Variations in Expenditures
 - Analysis of Significant Variations in Receipts
- Report Comments

The accountants' report that covers the Supplementary Information for State Compliance Purposes presented in the Compliance Report Section states the auditors have applied certain limited procedures as prescribed by the Audit Guide as adopted by the Auditor General to the 2007 and 2008 Supplementary Information for State Compliance Purposes. However, the accountants do not express an opinion on the supplementary information.

The accountants have not applied procedures to the 2006 Supplementary Information for State Compliance Purposes, and accordingly, do not express an opinion thereon.

SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY
SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES
 Appropriations for Fiscal Year 2008

Fourteen Months Ended August 31, 2008

	Appropriations (Net of Transfers)	Lapse Period		Total Expenditures 14 Months Ended August 31	Balances Lapsed August 31
		Expenditures Through June 30	Expenditures July 1 to August 31		
P.A. 95-0348 FISCAL YEAR 2008					
GENERAL REVENUE FUND-001					
Replenishment of a Draw on the Debt Service Reserve Fund Backing Bonds Issued on Behalf of Spectrulite Consortium Inc.	\$ 719,313	\$ 324,144	\$ 0	\$ 324,144	\$ 395,169
Replenishment of a Draw on the Debt Service Reserve Fund Backing Bonds Issued on Behalf of Waste Recovery-Illinois and Related Trustee and Legal Expenses	\$ 415,655	\$ 354,404	\$ 0	\$ 354,404	\$ 61,251
Replenishment of a Draw on the Debt Service Reserve Fund Backing Bonds Issued on Behalf of Alton Center Business Park	\$ 1,026,000	\$ 1,026,000	\$ 0	\$ 1,026,000	\$ 0
Replenishment of a Draw on the Debt Service Reserve Fund Backing Bonds Issued on Behalf of Laclede Steel - Illinois	\$ 1,441,643	\$ 1,387,409	\$ 0	\$ 1,387,409	\$ 54,234
Total Fiscal Year 2008	<u>\$ 3,602,611</u>	<u>\$ 3,091,957</u>	<u>\$ 0</u>	<u>\$ 3,091,957</u>	<u>\$ 510,654</u>

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

SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY
SCHEDULE OF APPROPRIATIONS, EXPENDITURES, AND LAPSED BALANCES
 Appropriations for Fiscal Year 2007

Fourteen Months Ended August 31, 2007

	Appropriations (Net of Transfers)	Lapse Period		Total Expenditures 14 Months Ended August 31	Balances Lapsed August 31
		Expenditures Through June 30	Expenditures July 1 to August 31		
P.A. 94-798 FISCAL YEAR 2007					
GENERAL REVENUE FUND-001					
Replenishment of a Draw on the Debt Service Reserve Fund Backing Bonds Issued on Behalf of Spectrulite Consortium Inc.	\$ 737,726	\$ 451,183	\$ 0	\$ 451,183	\$ 286,543
Replenishment of a Draw on the Debt Service Reserve Fund Backing Bonds Issued on Behalf of Waste Recovery - Illinois	\$ 364,225	\$ 340,471	\$ 0	\$ 340,471	\$ 23,754
Replenishment of a Draw on the Debt Service Reserve Fund Backing Bonds Issued on Behalf of Alton Center Business Park	\$ 1,010,000	\$ 820,000	\$ 0	\$ 820,000	\$ 190,000
Replenishment of a Draw on the Debt Service Reserve Fund Backing Bonds Issued on Behalf of Laclede Steel - Illinois	\$ 1,391,143	\$ 1,195,607	\$ 0	\$ 1,195,607	\$ 195,536
Total Fiscal Year 2007	<u>\$ 3,503,094</u>	<u>\$ 2,807,261</u>	<u>\$ 0</u>	<u>\$ 2,807,261</u>	<u>\$ 695,833</u>

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

SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY

COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES

For the Fiscal Years Ended June 30,

	FISCAL YEAR		
	2008	2007	2006
<u>GENERAL REVENUE FUND-001</u>	<u>P.A. 95-0348</u>	<u>P.A. 94-798</u>	<u>P.A. 94-0015</u>
Appropriations (Net of Transfers)	<u>\$ 3,602,611</u>	<u>\$ 3,503,094</u>	<u>\$ 3,048,440</u>
<u>Expenditures</u>			
Replenishment of a Draw on the Debt Service Reserve Fund Backing Bonds Issued on Behalf of Spectrulite Consortium Inc.	\$ 324,144	\$ 451,183	\$ 210,000
Replenishment of a Draw on the Debt Service Reserve Fund Backing Bonds Issued on Behalf of Waste Recovery-Illinois and Related Trustee and Legal Expenses	\$ 354,404	\$ 340,471	\$ 344,824
Replenishment of a Draw on the Debt Service Reserve Fund Backing Bonds Issued on Behalf of Alton Center Business Park	\$ 1,026,000	\$ 820,000	\$ 1,450,000
Replenishment of a Draw on the Debt Service Reserve Fund Backing Bonds Issued on Behalf of Laclede Steel-Illinois	<u>\$ 1,387,409</u>	<u>\$ 1,195,607</u>	<u>\$ 0</u>
Total Expenditures	<u>\$ 3,091,957</u>	<u>\$ 2,807,261</u>	<u>\$ 2,004,824</u>
Lapsed Balances	<u><u>\$ 510,654</u></u>	<u><u>\$ 695,833</u></u>	<u><u>\$ 1,043,616</u></u>

SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY
COMPARATIVE SCHEDULE OF CASH RECEIPTS
 For the Fiscal Years Ended June 30,

<u>State Grant Receipts</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Department of Commerce and Economic			
Opportunity grant for Mid-America	<u>\$ 250,000</u>	<u>\$ 0</u>	<u>\$ 0</u>
Medical District			
 Total Receipts	 <u><u>\$ 250,000</u></u>	 <u><u>\$ 0</u></u>	 <u><u>\$ 0</u></u>

SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY
ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES
For the Two Years Ended June 30, 2008

ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES BETWEEN FISCAL YEARS 2007 AND 2008

GENERAL REVENUE FUND – 001

REPLENISHMENT OF A DRAW ON THE DEBT SERVICE RESERVE FUND BACKING BONDS ISSUED ON BEHALF OF SPECTRULITE CONSORTIUM INC.

The decrease in expenditures in fiscal year 2008 was due to an increase in rental income received in fiscal year 2008, which reduced the amount SWIDA was required to pay.

REPLENISHMENT OF A DRAW ON THE DEBT SERVICE RESERVE FUND BACKING BONDS ISSUED ON BEHALF OF ALTON CENTER BUSINESS PARK

The increase in expenditures in fiscal year 2008 was due to SWIDA expending additional funds in order to prevent a default on the bonds, which was not needed at the end of fiscal year 2007.

ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES BETWEEN FISCAL YEARS 2006 AND 2007

GENERAL REVENUE FUND – 001

REPLENISHMENT OF A DRAW ON THE DEBT SERVICE RESERVE FUND BACKING BONDS ISSUED ON BEHALF OF SPECTRULITE CONSORTIUM INC.

The increase in expenditures in fiscal year 2007 was due to funds in the debt service reserve fund at the end of fiscal year 2005 being used to meet principal and interest obligations in fiscal year 2006, therefore, less funds were requested in fiscal year 2006. Expenditures in each fiscal year are affected by the revenue earned in a rental-sharing agreement.

REPLENISHMENT OF A DRAW ON THE DEBT SERVICE RESERVE FUND BACKING BONDS ISSUED ON BEHALF OF ALTON CENTER BUSINESS PARK

The decrease in expenditures in fiscal year 2007 was due to fiscal year 2006 being the first year of appropriations for Alton Center Business Park bonds, which included a catch-up on past due payments. Fiscal year 2007 expenditures were not used to pay past due principal and interest payments.

SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY
ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES
For the Two Years Ended June 30, 2008

ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES BETWEEN FISCAL YEARS 2006 AND 2007 Continued.

REPLENISHMENT OF A DRAW ON THE DEBT SERVICE RESERVE FUND BACKING BONDS ISSUED ON BEHALF OF LACLEDE STEEL - ILLINOIS

The increase in expenditures in fiscal year 2007 was due to the depletion of funds received in the bankruptcy disposition of Laclede's pledged assets which were used to pay principal and interest payments in prior years. Further, fiscal year 2007 was the first year that appropriations were needed to prevent default.

SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY
ANALYSIS OF SIGNIFICANT VARIATIONS IN RECEIPTS
For the Two Years Ended June 30, 2008

ANALYSIS OF SIGNIFICANT VARIATIONS IN RECEIPTS BETWEEN FISCAL YEARS 2007 AND 2008

DEPARTMENT OF COMMERCE AND ECONOMIC OPPORTUNITY GRANT FOR MID AMERICA MEDICAL DISTRICT

The increase in receipts was due to SWIDA receiving a one-time grant in fiscal year 2008 from the Department of Commerce and Economic Opportunity on behalf of the Mid America Medical District (MAMD) to be used for general start up costs involved in establishing the East Saint Louis Mid America Medical District, its commission, and the development of the Master Plan for the district.

SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY
REPORT COMMENTS
For the Two Years Ended June 30, 2008

Authority Functions

The Southwestern Illinois Development Authority (Authority) was established in September 1987 as a political subdivision, body politic and municipal corporation. The Authority's purpose is to promote development and to assist in the development, construction and acquisition of industrial, commercial, housing or residential projects within Madison, St. Clair, Clinton and Bond counties and any navigable waters and air space located therein.

The Authority has the continuing power to issue bonds, notes, or other evidences of indebtedness for the purpose of developing, constructing, acquiring or improving projects, including those established by business entities locating or expanding property within the territorial jurisdiction of the Authority.

Proceeds of Authority issued revenue bonds are loaned to companies for the acquisition of land and construction of various facilities. These companies are primarily liable for repayment of the bonds, which are secured by Authority loan agreements with the companies. In certain instances, the State has accepted a moral obligation to repay the bonds in the event the companies are unable to meet the bond's repayment commitments.

Bond Issues In Default

On April 19, 1995, the Authority issued \$6,700,000 of Series 1995 Industrial Development Revenue Bonds on behalf of Spectrulite Consortium, Inc. On January 29, 2003, Spectrulite Consortium Inc. filed a petition for reorganization under Chapter 11 of the Bankruptcy Code. Subsequently, Spectrulite entered into a rental agreement, for which Authority management stated that the State's share of rental income applied to debt service payments was \$285,332 for fiscal year 2007 and \$400,069 for fiscal year 2008. Authority management stated that Spectrulite planned to pay off the remainder of the bonds in April, 2009, and the Authority's final payment of principal and interest therefore would be February 1, 2009.

On August 1, 1998, the Authority issued \$2,895,000 of Series 1998 A Solid Waste Disposal Refunding Revenue Bonds on behalf of Waste Recovery-Illinois. On August 1, 2002, Waste Recovery-Illinois notified the Authority it had insufficient funds to make the current and future principal and interest payments on the bonds.

On May 4, 2000, the Authority issued \$11,548,000 of Series 2000 Taxable Private Activity Revenue Bonds on behalf of Alton Center Business Park. On September 24, 2004, Alton Center Business Park notified the Authority it had insufficient funds to make the current and future principal and interest payments on the bonds.

On June 3, 2004, the Authority issued \$13,585,000 of Series 2004 Taxable Solid Waste Disposal Refunding Revenue Bonds on behalf of Laclede Steel Company. On January 31, 2005, Laclede Steel Company filed a Disclosure Statement in connection with a Plan of Liquidation under Chapter 11 of the Bankruptcy Code. Laclede Chain, a wholly owned subsidiary of Laclede Steel Company, was sold, and the proceeds of the sale were pledged to the State of Illinois in order to secure the Series 2004 Taxable Solid Waste Disposal Refunding Revenue Bonds. On June 7, 2006, the trustee of the bonds notified the Authority it had insufficient funds to make the current and future principal and interest payments on the bonds.

During the examination period, the Authority paid all State appropriations to the debt service reserve fund and to trustees for related trustee fees as appropriated by the General Assembly. The trustee transferred funds from the debt service reserve funds as necessary to meet debt service requirements.

Obligor Required Notice of Default

According to the moral obligation loan agreements, the obligors (companies for whom the bonds were issued) are required to advise the Authority and the trustee, in writing, whether or not it reasonably believes that it will have available sufficient monies to make the next two payments of interest on and, if applicable, the next regularly scheduled payment of principal of the bonds. Furthermore, if at any time the obligor reasonably believes that it will not have sufficient moneys available to make any regularly scheduled payment of principal and interest on the bonds, the obligor is required to promptly advise the Authority, the trustee and the rating service in writing of such event and the reasons giving rise to such situation.

Alton Center Business Park did not notify the Authority, in writing, of its inability to pay principal and interest payments during the examination period. Waste Recovery only notified the Authority of its inability to pay principal and/or interest on its bonds for two of four (50%) payment dates during the examination period. Further, the two letters prepared by Waste Recovery were not timely submitted to the Authority. They were submitted between two and eleven days prior to the due dates of the payments. Spectrulite Consortium, Inc. and Laclede Steel Company were bankrupt, and therefore did not continue to notify the Authority of their inability to make payments of principal and interest after the bankruptcy notice.

State Moral Obligation

The Southwestern Illinois Development Act (70 ILCS 520/7(f)) states that if the Authority determines that its monies will not be sufficient for the payment of the principal and interest on its bonds, the Authority shall certify to the Governor the amount required in order to make such principal and interest payments. Additionally, in the event that payments are withdrawn from a debt service reserve fund for an Authority bond issue, the Authority shall certify to the Governor the amount required to restore the reserve fund to the required level. The Governor will then submit the amounts to the General Assembly in order for the Authority to be appropriated monies for such purposes. However, the Authority did not prepare and submit required certifications to the Governor during the examination period (see Finding 08-1 on page 7 for

more information). The General Assembly made appropriations to the Authority in order to replenish draws on the debt service reserve fund backing bonds issued on behalf of Waste Recovery-Illinois, Spectrulite Consortium, Inc., Alton Center Business Park, and Laclede Steel Company.

State Grant

On June 26, 2007, the Authority entered into a grant agreement with the Department of Commerce and Economic Opportunity (DCEO), which granted \$250,000 to the Authority for a sub-grant to the Mid America Medical District (MAMD). The grant is to be used for general start up costs involved in establishing the East Saint Louis Mid America Medical District, its commission, and the development of the Master Plan for the district. Authority management stated that the grant and money were being handled by the Southwest Regional Manager for DCEO and the Authority was simply the holding agent for the funds, which have been invested in The Illinois Funds. No money was expended from the grant through the end of the examination period. The grant expires in spring 2009. The regional manager was applying for an extension for the grant due to delays in assembling the MAMD Board and formulating rules.

Board Members

The Authority is governed by a board of fourteen members appointed by the Governor and the County Board chairmen of Madison, St. Clair, Clinton, and Bond Counties. At June 30, 2008, Board members included:

Robert P. Lombardi, Chairman
James S. Nations
Reggie Sparks
Robert D. Halsey
Barbara S. Johnson
Khalil El-Amin
Robert L. Plummer
Jim Sullivan
David A. Miller
Ed McMillan
Jack Lavin, Ex-Officio member
Maureen T. O'Donnell, Ex-Officio member
Open position – Governor Appointee
Open position – Governor Appointee