

SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY
SPECIAL LIMITED SCOPE COMPLIANCE EXAMINATION

For the Two Years Ended June 30, 2012

SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY
SPECIAL LIMITED SCOPE COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2012

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SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY
SPECIAL LIMITED SCOPE COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2012

AGENCY OFFICIALS

Executive Director

Mr. Michael Lundy

Assistant Executive Director

Mr. Joe Gasparich

Authority office is located at:

1022 Eastport Plaza Drive
Collinsville, Illinois 62234

Members of the Board:
Robert Lombardi, Chair
Khalil El-Amin
Barbara S. Johnson
David A. Miller
James S. Nations
Kevin Kaufhold
Kennard Tucker
John Hipkind
Greg Kuehnel
Reggie Sparks
Jim Sullivan
David Willey



Ex. Office:
Adam Pollet
Ann Schneider

Executive Director:

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

Michael J. Lundy

Assistant Executive Director
Joe Gasparich, MBA, CPA

July 18, 2013

Honorable William G. Holland
Auditor General
Hes Park Plaza
740 East Ash Street
Springfield, IL 62703


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, 2012. Based on this evaluation, we assert that during the years ended June 30, 2011 and June 30, 2012, the Authority has materially complied with the assertions below.

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

Yours very truly,

Southwestern Illinois Development Authority


Michael Lundy, Executive Director

SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY
SPECIAL LIMITED SCOPE COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2012

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, on Internal Control Over Compliance 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>Current Report</u>	<u>Prior Report</u>
Findings	1	2
Repeated findings	0	1
Prior recommendations implemented or not repeated	2	0

SCHEDULE OF FINDINGS

FINDINGS (STATE COMPLIANCE)

<u>Item No.</u>	<u>Page</u>	<u>Description</u>	<u>Finding Type</u>
12-1	7	Inadequate controls over the calculation of accrued interest	Significant Deficiency and Noncompliance

PRIOR FINDINGS NOT REPEATED

A	9	Failure to submit required certifications to the Governor
B	9	Expenditures did not comply with appropriation bills

EXIT CONFERENCE

Authority management waived a formal exit conference in correspondence dated July 18, 2013 from Michael Lundy, Executive Director. The responses to the recommendations were provided on July 18, 2013 by Michael Lundy, Executive Director.

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OFFICE OF THE AUDITOR GENERAL
WILLIAM G. HOLLAND

INDEPENDENT ACCOUNTANTS' REPORT ON SPECIAL LIMITED STATE
COMPLIANCE TESTING, ON INTERNAL CONTROL OVER COMPLIANCE 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 funds from the Illinois Department of Commerce and Economic Opportunity during the two years ended June 30, 2012. The management of the Authority is responsible for compliance with these requirements. Our responsibility is to express an opinion on the Authority's compliance based on our examination.

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

Our special limited scope compliance examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act); and the Audit Guide as adopted by the Auditor General pursuant to the Act; and, accordingly, included examining, on a test basis, evidence about the Authority's compliance with those requirements listed in the first paragraph of this report and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Authority's compliance with specified requirements.

Our special limited scope compliance examination was restricted to appropriations made by the Illinois General Assembly to the Authority from the General Revenue Funds and related expenditures, as well as grant funds from the Illinois Department of Commerce and Economic Opportunity during Fiscal Years 2011 and 2012.

In our opinion, the Authority complied, in all material respects, with the compliance requirements listed in the first paragraph of this report during the two years ended June 30, 2012. However, the results of our procedures disclosed an instance of noncompliance with the requirements, which is required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which is described in the accompanying schedule of findings as item 12-1.

Internal Control

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we considered to be a significant deficiency as described in the accompanying schedule of findings as item 12-1. *A significant deficiency in an entity's internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

There were no immaterial findings that have been excluded from this report.

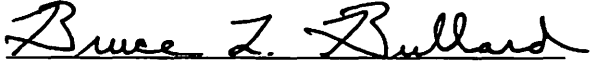
The Authority's response to the finding identified in our examination is described in the accompanying schedule of findings. We did not examine the Authority's response and, accordingly, we express no opinion on the response.

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 for the years ended June 30, 2012 and June 30, 2011 in Schedules 1 through 5 and the Report Comments Section 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 June 30, 2012 and June 30, 2011 accompanying supplementary information in Schedules 1 through 5. However, we do not express an opinion on the accompanying supplementary information.

We have not applied procedures to the June 30, 2010 accompanying supplementary information in Schedules 3 through 5 and in the Report Comments Section, and accordingly, we do not express an opinion or provide any assurance on it.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor and Authority management 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

July 18, 2013

SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY
SCHEDULE OF FINDINGS
For the Two Years Ended June 30, 2012

12-1. **FINDING** (Inadequate controls over the calculation of accrued interest)

The Southwestern Illinois Development Authority (Authority) did not accurately calculate interest on funds held in trust on behalf of Mid-America Medical District Commission (Commission).

In Fiscal Year 2007, the Department of Commerce and Economic Opportunity (DCEO) awarded a grant to the Authority in the amount of \$250,000 to be used for Commission start-up expenses and the development of a Master Plan for the Mid-America Medical District. The grant was awarded directly to the Authority, which maintained the State grant funds in an interest-bearing locally held fund commingled with other grant funds of the Authority. At the direction of the Commission, the Authority made expenditures from the account until the grant term ended in Fiscal Year 2011. As the end of the grant period approached, the Authority calculated the amount of interest accrued on the funds held in trust and made the funds available for the Commission's use. The calculation of interest was necessary due to the commingling of funds in the account.

We noted the amount of interest calculated by the Authority on behalf of the Commission was understated by approximately \$1,612. As a result of this understatement, the unspent grant funds returned to DCEO at the end of the grant period were understated by the same amount. The Authority did not practice due diligence in regards to the interest calculation.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Authority to establish and maintain a system or systems of internal fiscal and administrative controls, which shall provide assurance that revenues or other funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

The Illinois Grant Funds Recovery Act (30 ILCS 705/5) states any grant funds not expended or legally obligated by the end of the grant agreement must be returned to the grantor agency.

Authority management stated that the unspent accrued interest was not returned to DCEO at the end of the grant period due to employee oversight.

Failure to practice due diligence regarding the interest calculation of State grant funds increases the risk of the Authority violating the grant agreement and maintaining inaccurate accounting records. (Finding Code No. 12-1)

SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY
SCHEDULE OF FINDINGS
For the Two Years Ended June 30, 2012

RECOMMENDATION

We recommend the Authority work to remit the proper amount of unspent grant funds, including interest earned, to DCEO. We also recommend the Authority discontinues the commingling of grant funds.

AUTHORITY RESPONSE

The Authority agrees with this finding and recommendation. The Authority subsequently remitted the balance of the interest owed, \$1,613 as calculated by the compliance engagement, \$1,052.13 on July 2, 2013 and \$560.87 on July 18, 2013. Since all DCEO grant funds have been expended there will be no future commingling of funds.

SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY
PRIOR FINDINGS NOT REPEATED
For the Two Years Ended June 30, 2012

A. **FINDING** (Failure to submit required certifications to the Governor)

During the prior examination, the Southwestern Illinois Development Authority (Authority) did not certify to the Governor the amounts required by the Authority to enable it to pay principal, interest, and to replenish the debt service reserve fund for its bonds for Fiscal Year 2011.

During the current examination, the Authority certified to the Governor the amounts required by the Authority to enable it to pay principal, interest, and to replenish the debt service reserve fund for its bonds for Fiscal Years 2012 and 2013. (Finding Code No. 10-1)

B. **FINDING** (Expenditures did not comply with appropriation bills)

During the prior examination, the Southwestern Illinois Development Authority's (Authority) expenditures did not comply with the authorized uses in the appropriation bill.

During the current examination, we noted during testing that Fiscal Year 2011 expenditures were made for operational expenditures and Fiscal Year 2012 expenditures were vouchered for the replenishment of debt service reserve fund backing bonds. (Finding Code No. 10-2)

SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY
SPECIAL LIMITED SCOPE COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2012

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
 - Schedule of State Grant Funds – Cash Basis
 - Analysis of Significant Variations in Expenditures

- Report Comments (Not Examined)

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 June 30, 2012 and June 30, 2011 in Schedules 1 through 5. However, the accountants do not express an opinion on the supplementary information. The accountants' report also states that they have not applied procedures to the Report Comments Section, and accordingly, they do not express an opinion or provide any assurance on it.

SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY
SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES

For the Fiscal Year Ended June 30, 2012

P.A. 97-0063 & P.A. 97-0642 FISCAL YEAR 2012	Appropriations (Net of Transfers)	Expenditures Through June 30	Lapse Period Expenditures July 1 to December 31	Total Expenditures 18 Months Ended December 31	Balances Lapsed December 31
GENERAL REVENUE FUND-001					
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	\$ 364,800	\$ 363,695	\$ 0	\$ 363,695	\$ 1,105
Replenishment of a Draw on the Debt Service Reserve Fund Backing Bonds Issued on Behalf of Alton Center Business Park	700,000	690,000	0	690,000	10,000
Replenishment of a Draw on the Debt Service Reserve Fund Backing Bonds Issued on Behalf of Laclede Steel-Illinois	<u>1,407,000</u>	<u>1,406,958</u>	<u>0</u>	<u>1,406,958</u>	<u>42</u>
Total Fiscal Year 2012	<u><u>\$ 2,471,800</u></u>	<u><u>\$ 2,460,653</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 2,460,653</u></u>	<u><u>\$ 11,147</u></u>

Note: Appropriations, expenditures, and lapsed balances were obtained from Authority records which have been reconciled to those of the State Comptroller. Expenditure amounts are vouchers approved for payment by the Authority and submitted to the State Comptroller for payment to the vendor.

SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY
SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES
 For the Fiscal Year Ended June 30, 2011

P.A. 96-0956 FISCAL YEAR 2011	Appropriations (Net of Transfers)	Expenditures Through June 30	Lapse Period Expenditures July 1 to December 31	Total Expenditures 18 Months Ended December 31	Balances Lapsed December 31
GENERAL REVENUE FUND-001					
Operational Expenses	<u>\$ 2,512,000</u>	<u>\$ 2,500,078</u>	<u>\$ 0</u>	<u>\$ 2,500,078</u>	<u>\$ 11,922</u>
Total Fiscal Year 2011	<u><u>\$ 2,512,000</u></u>	<u><u>\$ 2,500,078</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 2,500,078</u></u>	<u><u>\$ 11,922</u></u>

Note: Appropriations, expenditures, and lapsed balances were obtained from Authority records which have been reconciled to those of the State Comptroller. Expenditure amounts are vouchers approved for payment by the Authority and submitted to the State Comptroller for payment to the vendor.

SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY
COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES
 For the Fiscal Years Ended June 30,

	Fiscal Year		
	2012	2011	2010
	P.A. 97-0063		
<u>GENERAL REVENUE FUND-001</u>	<u>P.A. 97-0642</u>	<u>P.A. 96-0956</u>	<u>P.A. 96-0042</u>
Appropriations (Net of Transfers)	\$ 2,471,800	\$ 2,512,000	\$ 3,309,300
<u>Expenditures</u>			
Operational Expenses	0	2,500,078	0
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	363,695	0	0
Replenishment of a Draw on the Debt Service Reserve Fund Backing Bonds Issued on Behalf of Alton Center Business Park	690,000	0	0
Replenishment of a Draw on the Debt Service Reserve Fund Backing Bonds Issued on Behalf of Laclede Steel- Illinois	1,406,958	0	0
Replenishment of a Draw on the Debt Service Reserve Fund Backing Bonds Issued and Related Trustee and Legal Expenses	<u>0</u>	<u>0</u>	<u>2,568,707</u>
Total Expenditures	<u>2,460,653</u>	<u>2,500,078</u>	<u>2,568,707</u>
Lapsed Balances	<u>\$ 11,147</u>	<u>\$ 11,922</u>	<u>\$ 740,593</u>

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

Schedule 4

**SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY
SCHEDULE OF STATE GRANT FUNDS - CASH BASIS**

For the Two Years Ended June 30, 2012

The Authority received a \$250,000 grant from the Department of Commerce and Economic Opportunity in Fiscal Year 2008 pursuant to an appropriation for the start up costs of the Mid-America Medical District Commission. The Authority expended the remainder of these funds during Fiscal Year 2011.

	<u>State Grant Funds</u>
Beginning Balance at July 1, 2010	\$ 64,850
Receipts	10,862
Disbursements	<u>(74,100)</u>
Ending Balance at June 30, 2011	<u>\$ 1,612</u>
Beginning Balance at July 1, 2011	\$ 1,612
Receipts	1
Disbursements	<u>-</u>
Ending Balance at June 30, 2012	<u>\$ 1,613</u>

Note: This schedule was prepared based on Authority records, which have been reconciled to bank statements. This schedule includes accrued interest of \$10,863.

SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY
ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES
 For the Two Years Ended June 30, 2012

ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES BETWEEN FISCAL YEARS 2010 AND 2011

GENERAL REVENUE FUND – 001

REPLENISHMENT OF A DRAW ON THE DEBT SERVICE RESERVE FUND BACKING BONDS ISSUED AND RELATED TRUSTEE AND LEGAL EXPENSES

The decrease in expenditures in Fiscal Year 2011 was due to the Authority receiving a lump sum appropriation for operational expenses rather than for the replenishment of a draw on the Debt Service Reserve Fund.

OPERATIONAL EXPENSES

The increase in expenditures in Fiscal Year 2011 was due to the Authority receiving a lump sum appropriation for operational expenses rather than for the replenishment of a draw on the Debt Service Reserve Fund.

ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES BETWEEN FISCAL YEARS 2011 AND 2012

GENERAL REVENUE FUND – 001

OPERATIONAL EXPENSES

The decrease in expenditures in Fiscal Year 2012 was due to the Authority receiving appropriations for the replenishment of a draw on the Debt Service Reserve Fund designated for a specific company rather than a lump sum appropriation for operational expenses.

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

The increase in expenditures in Fiscal Year 2012 was due to the Authority receiving appropriations for the replenishment of a draw on the Debt Service Reserve Fund designated for a specific company rather than a lump sum appropriation for operational expenses.

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 2012 was due to the Authority receiving appropriations for the replenishment of a draw on the Debt Service Reserve Fund designated for a specific company rather than a lump sum appropriation for operational expenses.

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 2012 was due to the Authority receiving appropriations for the replenishment of a draw on the Debt Service Reserve Fund designated for a specific company rather than a lump sum appropriation for operational expenses.

SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY
REPORT COMMENTS
For the Two Years Ended June 30, 2012
(Not Examined)

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 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.

SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY
REPORT COMMENTS
For the Two Years Ended June 30, 2012
(Not Examined)

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 and Waste Recovery did not notify the Authority, in writing, of their inability to pay principal and interest payments during the examination period. According to the Authority, Alton Center Business Park is in negotiations with the Governor's Office and is reluctant to put anything in writing at this time and Waste Recovery has not operated its facility for several years. Laclede Steel Company is 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 Authority 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. The Authority did prepare and submit required certifications to the Governor during the examination period. 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, 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 St. 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. The grant expired on December 31, 2010. Through the end of the grant period \$258,750 of the grant funds had been expended. The Authority claimed \$10,863 in accrued interest and refunded DCEO \$500 worth of unspent grant funds and \$1,613 worth of unspent accrued interest.

SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY
REPORT COMMENTS
For the Two Years Ended June 30, 2012
(Not Examined)

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, 2012, Board members included:

Robert P. Lombardi, Chairman
Khalil El-Amin
Barbara S. Johnson
David A. Miller
James S. Nations
Kevin Kaufhold
John Hipskind
Kennard Tucker
Greg Kuehnel
Reggie Sparks
Jim Sullivan
David Willey
Edie Kock
James Stack

Subsequent Event

In Fiscal Year 2013, the Children's Center for Behavioral Developmental Bonds went into default. The Bonds were issued for the purpose of refunding the SWIDA Special Facility Revenue Bonds (Children's Center for Behavioral Developmental Project) Series 1990 in the outstanding amount of \$2,655,000 and to finance the costs of issuance.