

**STATE OF ILLINOIS
EAST ST. LOUIS FINANCIAL ADVISORY AUTHORITY**

**FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 2006**

**COMPLIANCE EXAMINATION
FOR THE TWO YEARS ENDED JUNE 30, 2006**

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

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State Of Illinois—East St. Louis Financial Advisory Authority
AUTHORITY OFFICIALS
For the Two Years Ended June 30, 2006

Administration

Executive Director (Retired 10/31/06)	Mr. W. Kenneth Gearhart
Executive Director (11/1/06 – present)	Ms. Melinda Carlton
Financial Analyst	Ms. Patrice R. Rencher
Legal Counsel (Resigned 11/7/05)	Mr. R. Bruce Patterson

Authority office is located at:

Kenneth Hall State Regional Office Building
10 Collinsville Avenue
Suite 202
East St. Louis, Illinois 62201

Dr. Katie H. Wright, Vice Chair
Otis Cowan
Anthony "Tony" Grant
Jacqueline Settles

City of East St. Louis
Financial Advisory Authority
(An Agency of the State of Illinois)

October 13, 2006

Schorb & Schmersahl, LLC
518 North Main Street
Columbia, IL 62236

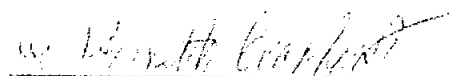
Ladies and Gentlemen:

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 East St. Louis Financial Advisory Authority (the "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, 2006. Based on this evaluation, we assert that during the years ended June 30, 2005 and June 30, 2006, the Authority has materially complied with the assertions below.

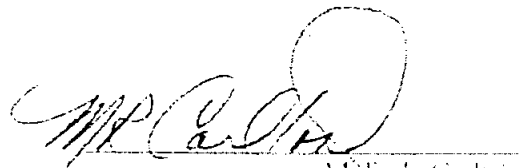
- A. The agency has obligated, expended, received and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The agency has obligated, expended, received and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The agency has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. The State revenues and receipts collected by the agency are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.
- E. The money or negotiable securities or similar assets handled by the agency on behalf of the State or held in trust by the agency have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

Yours very truly,

East St. Louis Financial Advisory Authority



W. Kenneth Gearhart
Executive Director



Melinda Carlton
Executive Director
Effective November 1, 2006

(2)

State Regional Office Building
Room 207
10 Cahoonville Avenue
East St. Louis, Illinois 62201

State Of Illinois—East St. Louis Financial Advisory Authority
 COMPLIANCE REPORT SUMMARY
 For the Two Years Ended June 30, 2006

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

AUDITORS' REPORTS

The Independent Accountants' Report on State Compliance on Internal Control Over Compliance and on Supplemental 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	7	2
Repeated Findings	1	0
Prior recommendations implemented or not repeated	1	3

Details of audit findings are presented in a separately tabbed report section.

SCHEDULE OF FINDINGS

<u>Item No.</u>	<u>Page</u>	<u>Description</u>
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Findings (*Government Auditing Standards*)

06-1	10	Infrequent performance of investment reconciliations
06-2	11	Unauthorized access to bank accounts
06-3	12	Segregation of duties

Findings (State Compliance)

06-4	13	Unused off-site property
06-5	14	Quarterly investment reports
06-6	15	Employee termination and re-hire not properly administered or documented
06-7	17	Composition of the Board of Directors is not in compliance with the law

Prior Findings Not Repeated (State Compliance)

06-8	18	Noncompliance with the Illinois Governmental Ethics Act
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State Of Illinois—East St. Louis Financial Advisory Authority
COMPLIANCE REPORT SUMMARY *(Continued)*
For the Two Years Ended June 30, 2006

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with Authority personnel at an exit conference on February 1, 2007. Attending were:

East St. Louis Financial Advisory Authority

Melinda Carlton Executive Director

Office of the Auditor General

Kim Labonte Audit Manager

Schorb & Schmersahl, LLC

James R. Schmersahl Managing Partner
Denise A. Hesler Audit Manager

Responses to the recommendations were provided by Melinda Carlton, in correspondence dated February 6, 2007.



**INDEPENDENT ACCOUNTANTS' REPORT ON STATE
COMPLIANCE, ON INTERNAL CONTROL OVER
COMPLIANCE, AND ON SUPPLEMENTARY INFORMATION
FOR STATE COMPLIANCE PURPOSES**

Honorable William G. Holland
Auditor General
State of Illinois

Compliance

As Special Assistant Auditors for the Auditor General, we have examined State of Illinois – East St. Louis Financial Advisory Authority's (the "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, during the two years ended June 30, 2006. 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 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 complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. The State revenues and receipts collected by the Authority are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.
- E. Money or negotiable securities or similar assets handled by the Authority on behalf of the State or held in trust by the Authority have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with the law.

Our 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 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.

In our opinion, the Authority complied, in all material respects, with the aforementioned requirements during the two years ended June 30, 2006. However, the results of our procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of State findings and questioned costs as findings 06-4, 06-5, and 06-7. As required by the Audit Guide, immaterial findings relating to instances of noncompliance excluded from this report have been reported in a separate letter to your office.

Internal Control

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws and regulations. In planning and performing our examination, we considered the Authority's internal control over compliance with the aforementioned requirements in order to determine 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.

We noted certain matters involving internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Authority's ability to comply with one or more of the aforementioned requirements. Reportable conditions are described in the accompanying schedule of State findings and questioned costs as findings 06-1 through 06-3 and 06-6.

A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws and regulations that would be material in relation to one or more of the aforementioned requirements being examined may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over compliance would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider finding 06-6 to be a material weakness. Additionally, the results of our procedures disclosed other deficiencies in internal control, which are required to be reported in accordance with criteria established by the Audit Guide issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of State findings and questioned costs as findings 06-1 through 06-3. As required by the Audit Guide, immaterial findings relating to internal control deficiencies excluded from this report have been reported in a separate letter to your office.

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the governmental activities of the Authority as of and for the year ended June 30, 2006, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 13, 2006. 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 and is not a required part of the basic financial statements of the Authority. The 2006 Supplementary Information for State Compliance Purposes, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2006, taken as a whole.

We have applied certain limited procedures as prescribed by the Audit Guide as adopted by the Auditor General to 2005 Supplementary Information for State Compliance Purposes except for information in the Service Efforts and Accomplishments on which we did not perform any procedures. However, we do not express an opinion on the supplementary information.

The Authority's financial statements for the year ended June 30, 2004, which are not presented with the accompanying financial statements, were audited by other auditors whose report thereon dated October 1, 2004, expressed an unqualified opinion on the financial statements of the governmental activities. Their report on the 2004 Supplementary Information for State Compliance Purposes, except for that portion marked "unaudited" on which they expressed no opinion, stated that in their opinion, such information was fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2004, taken as a whole.

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.



Columbia, Illinois
October 13, 2006



**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

As Special Assistant Auditors for the Auditor General, we have audited the basic financial statements of the governmental activities of the State of Illinois—East St. Louis Financial Advisory Authority (the “Authority”), a component unit of the State of Illinois, as of and for the year ended June 30, 2006, which collectively comprise the Authority’s basic financial statements and have issued our report thereon dated October 13, 2006. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Authority’s ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 06-1 through 06-3.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected with a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 06-1 through 06-3 to be material weaknesses. We also noted certain deficiencies in the design or operation of internal control over financial reporting which do not meet the criteria for reporting herein and which are reported as State compliance findings in the schedule of findings. In addition, we noted certain immaterial instances of internal control deficiencies, which we have reported to management of the Authority in a separate letter dated October 13, 2006.

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 audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain matters which are reported as State compliance findings in the Schedule of Findings. We also noted certain other matters which we have reported to management of the Authority in a separate letter dated October 13, 2006.

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.



Columbia, Illinois
October 13, 2006

State Of Illinois—East St. Louis Financial Advisory Authority
SCHEDULE OF FINDINGS
CURRENT FINDINGS – Government Auditing Standards
For the Two Years Ended June 30, 2006

06-1 Infrequent Performance of Investment Reconciliations

Finding

The State of Illinois - East St. Louis Financial Advisory Authority (Authority) only performs investment reconciliations at year-end rather than on a monthly basis. The investment balance at June 30, 2006 was \$5,797,697.

Sound internal control policies and procedures include performing periodic reconciliations of bank and investment accounts to safeguard assets and minimize the risk of misappropriation.

Authority personnel stated they rely on a third-party to perform the investment reconciliation in conjunction with their annual year-end preparation of the accounting reports (GAAP package) that are submitted to the State Comptroller.

Without timely investment reconciliations, the account is susceptible to possible bank and/or bookkeeping errors or misappropriation. The prior period audit also reported a misstatement of the Authority's investment balance. However, the current year testing noted no misstatements. (Finding Code No. 06-1, 04-1)

Recommendation

We recommend the investment account be reviewed and reconciled monthly to obtain information that will allow the Authority to make investment decisions that provide for the maximization of return on its investments.

Authority Response

The Authority Agrees: The Authority had previously performed investment reconciliations at year-end rather than on a monthly basis. The FAA staff fully intends to review and reconcile the investment account on a monthly basis to allow the Authority to make investment decisions that provide for the maximization of return on its investments. The January statements have now been reconciled for the month.

State Of Illinois—East St. Louis Financial Advisory Authority
SCHEDULE OF FINDINGS
CURRENT FINDINGS – Government Auditing Standards *(Continued)*
For the Two Years Ended June 30, 2006

06-2 Unauthorized Access to Bank Accounts

Finding

The Authority's authorized check signers for its Locally Held Fund bank account include a former board member.

An audit confirmation received directly from the bank listed the executive director and a former board member as the authorized check signers for the Authority's Locally Held Fund bank account as of June 30, 2005 and June 30, 2006. The board member resigned in January 2005.

Good internal control procedures require that check authorization responsibility be limited to current employees and the current board of directors of an agency.

Agency personnel stated the reassignment of authorized check signers was overlooked after the resignation of the former board member.

Access to bank accounts by persons not associated with an agency could result in misappropriation of assets. However, we noted no instances of misappropriation during the current audit period. (Finding Code No. 06-2)

Recommendation

We recommend the Authority immediately remove the former board member as an authorized check signer and replace him with a current board member. In addition, the Authority should implement procedures to ensure that authorized check signers are reviewed on an annual basis or after changes in board or staff composition.

Authority Response

The Authority Agrees: The Authority had removed the former board member as an authorized check signer and replaced him with a current board member. By the time of the Exit Interview, held February 1, 2007 the name was removed and replaced with a current board member name. The Authority will make an annual review of authorized check signers and another review if there are changes in the board or staff.

State Of Illinois—East St. Louis Financial Advisory Authority
SCHEDULE OF FINDINGS
CURRENT FINDINGS – Government Auditing Standards (*Continued*)
For the Two Years Ended June 30, 2006

06-3 Segregation of Duties

Finding

The Authority lacks a segregation of duties in its accounting and financial procedures.

The Authority currently has three employees. Because of the limited number of personnel, the Agency's cash and investment receipts and disbursements procedures often require that one individual be responsible for duties that should be performed by at least two people. Total assets of the Authority were \$6,049,981 at June 30, 2006.

In order to achieve an adequate system of internal control, it is important that the duties of custody, authorization and recording of transactions be segregated, or that compensating controls be implemented.

Authority personnel indicated that achieving adequate segregation of duties is extremely difficult because the utilization of additional personnel is not a viable option due to limited appropriations.

Because of the lack of segregation of duties, it is possible that one employee who is responsible for several duties may initiate a transaction that is not proper and no other member of the Authority would find it. In addition, the funds of the Authority could be susceptible to possible bookkeeping errors or misappropriation. However, no such errors or misappropriations were noted. (Finding Code No. 06-3)

Recommendation

We recommend a reassessment of the current systems of duties and procedures for processing and reviewing cash and investment receipts and disbursements. Also, the Board of Directors should be involved in reviewing transactions as a compensating control.

Further, the Authority's Board of Directors should review the financial statements monthly and document its comments, questions and approval in the minutes.

Authority Response

The Authority Agrees: The Authority's cash and investment receipts and disbursements procedures are currently analyzed by one staff person, then approved by the Executive Director. Staff will, however, look at ways to ensure a segregation of duties.

The Board of Directors should be involved in reviewing transactions as a compensating control and the Authority will implement a process for board review of financial statements on a monthly basis. In addition, a resolution will be prepared each month for the board to consider as approval of its review of the statements. Minutes of the review will be included in each monthly meeting minutes, as they were in the January board meeting minutes.

State Of Illinois—East St. Louis Financial Advisory Authority
SCHEDULE OF FINDINGS
CURRENT FINDINGS – State Compliance
For the Two Years Ended June 30, 2006

06-4 Unused Off-Site Property

Finding

Authority furniture and equipment items are currently being used by the City of East St. Louis.

Thirty-five furniture and equipment items totaling \$7,812 were transferred to the Authority when another State Agency was dissolved. The Authority annually verifies the existence and condition of the property and confirms the inventory tags are still in place, however, the items are located off-site and are currently being used by the City of East St. Louis. The off-site property and equipment represents approximately 9% of the Authority's total property and equipment.

Good business practice dictates that agencies maintain and use their property and equipment, or dispose or transfer the equipment in accordance with the State Property Control Act.

Agency personnel stated there was no room in their current office space for the property.

Maintaining excess property is not a good use of State resources. (Finding Code No. 06-4)

Recommendation

We recommend the Authority and the City obtain the necessary approvals and transfer the off-site property to the City of East St. Louis. The City can more effectively manage and maintain the property, and replace as necessary if it becomes obsolete.

Authority Response

The Authority Agrees: Authority furniture, valued at \$11,275.27, was transferred to the city effective December 21, 2006. A request for exemption from the State Property Control Act was made to Paul J. Campbell, Director of Central Management Services. Mr. Campbell gave approval on December 21, 2006 and the city was informed of the transfer of property.

State Of Illinois—East St. Louis Financial Advisory Authority
SCHEDULE OF FINDINGS
CURRENT FINDINGS – State Compliance (*Continued*)
For the Two Years Ended June 30, 2006

06-5 Quarterly Investment Reports

Finding

The Executive Director did not provide the Board of Directors with quarterly investment reports as required by the Authority's Investment Policy.

During the period July 1, 2004 to June 30, 2006, we noted no quarterly investment reports submitted to the Board. In addition, there was no documentation in the minutes of the Board of Directors' meetings that referenced the investment reports or the Board's approval of them.

The Authority's Investment Policy states "the Executive Director shall prepare a quarterly report to the Members on the current status of all funds invested. The report shall include securities in the portfolio, current value and interest earned."

Agency personnel indicated that investment information was provided verbally to the Board, however, documentation of this communication was not maintained in the minutes to the Board meetings.

The lack of quarterly investment reports to the Board is a violation of the Authority's Investment Policy. (Finding Code No. 06-5)

Recommendation

We recommend the Executive Director provide written quarterly investment reports to the Board of Directors as required by the Investment Policy. In addition, the Board should formally approve those reports and document that approval in the minutes.

Authority Response

The Authority Agrees: Although quarterly investment reports had not been previously given to the FAA Board, the present Executive Director started the practice at the board's January meeting. A quarterly investment report was given to the Authority Board at its January meeting held January 27, 2007. The report was for the 2nd quarter of FY '07. For future quarterly investment reports, a resolution will be prepared so the board can officially approve the reports. In addition, the minutes will reflect the presentation of the report and the outcome of the vote of the resolution.

State Of Illinois—East St. Louis Financial Advisory Authority
SCHEDULE OF FINDINGS
CURRENT FINDINGS – State Compliance *(Continued)*
For the Two Years Ended June 30, 2006

06-6 Employee Termination and Re-hire Not Properly Administered or Documented

Finding

The termination and subsequent rehire of an Authority employee was not properly administered or documented.

The Authority has three employees. In April 2005, one employee resigned from the Authority to accept employment with a non-State organization. This employee worked for the Authority through April 15, 2005, and then was on paid vacation leave through May 6, 2005. On June 1, 2005, the Authority rehired the employee.

The employee received payment for time worked and for accrued vacation time through May 6. For the period of May 7 through May 31, the employee was not paid by the Authority. Beginning on June 1, the Authority resumed payroll payments to the employee for time worked at the Authority.

Although the employee did not receive inappropriate payroll payments, the Authority did not properly administer or document the termination and subsequent rehire of this employee. Effective May 7, the employee should have been terminated from the State payroll and the Group Insurance Program, but was not terminated. Consequently, we noted that the employee received insurance coverage during the period of May 7 through May 31, and should not have. Furthermore, the Authority did not maintain any documentation of the termination and subsequent rehire in the employee's personnel file.

Good internal controls policies require notification to be made to the Department of Central Management Services when employees are terminated, so that the employee can be terminated from the State payroll and from benefit programs. Furthermore, the State Employees Group Insurance Act of 1971 (5 ILCS 375/3(1)) states that a "member" of the Group Insurance Program must be an employee of the State, or an annuitant, retired employee or survivor. During the period from May 7 to May 31, this person did not meet the definition of a "member" under the Group Insurance Program, and therefore should not have received insurance coverage for this period.

Authority personnel stated that the executive director did not accept the employee's resignation, but rather considered the employee to be on a leave of absence. However, there was no documentation to support a leave of absence. The Authority was notified by the Group Insurance Program that the employee was discrepant in paying the required insurance premiums, however, no payment of the past due amount was made to the Group Insurance Division by either the employee or the Authority. (Finding Code No. 06-6)

State Of Illinois—East St. Louis Financial Advisory Authority
SCHEDULE OF FINDINGS
CURRENT FINDINGS – State Compliance *(Continued)*
For the Two Years Ended June 30, 2006

06-6 Employee Termination and Re-hire Not Properly Administered or Documented
(Continued)

Finding *(Continued)*

During the period of May 7 to May 31, 2005, this individual was not an employee of the State, and therefore, according to CMS personnel, does not owe any insurance premiums for this time period. However, this employee received insurance coverage for this period and should not have. Insurance claims could have been filed by this individual, during this time period, and the State would have paid them. However, no such claims were filed. Per CMS officials, the Authority should file the necessary paper work to terminate and rehire this individual, in order to resolve the discrepant report still on the records.

Recommendation

We recommend the Authority file the required paper work with CMS in order to resolve the discrepant report. The Authority should also continue to explore the circumstances and ramifications of the termination and re-hire to determine if additional action should be taken, or reimbursement sought, to resolve the matter.

Furthermore, the Authority should include supporting documentation for all changes in status of employees in the personnel files and revise its employee handbook to include procedures for the employment and termination of employees. Finally, the Authority should report all future terminations to the Department of CMS' State Payroll Division and Group Insurance Division on a timely basis.

Authority Response

The Authority Agrees: After several conversations with the Bureau of Personnel, during which time one of the attorneys was consulted, the personnel issue was forwarded to Senior Staff in the Governor's Office of Management & Budget. The Office agreed with the assessment and intentions to rectify the situation. In addition, the insurance changes necessary to reflect the administrative corrections will be conveyed to both departments by the end of February, 2007. In summary, the individual in question will need to re-pay the vacation which was advanced contrary to Authority and state policy. The termination and re-hire dates will be included in the correspondence. These dates will necessitate a change in the vacation amounts since the vacation amounts due the employee were calculated incorrectly when the employee terminated. Since the re-start date is less than two years ago the amount of vacation the employee is due is less than what it would have been had the employment continued uninterrupted.

The Authority will include supporting documentation for all changes in the status of employees in the personnel files. The employee handbook (Operations Handbook) will be revised to include procedures for the employment, termination, change of status, and tracking of leave on an accrual basis. All future terminations and changes of employee status will be reported promptly to the Department of CMS' State Payroll Division and the Group Insurance Division.

State Of Illinois—East St. Louis Financial Advisory Authority
SCHEDULE OF FINDINGS
CURRENT FINDINGS – State Compliance *(Continued)*
For the Two Years Ended June 30, 2006

06-7 Composition of the Board of Directors is Not in Compliance with the Law

Finding

The Authority's Board of Directors does not have the number of directors required by State statute.

During the period January 27, 2005 to June 30, 2006, the Board of Directors consisted of four members, all of whom are currently serving on expired terms. The term of three board members expired on August 30, 2005. The term of the fourth board member expired on August 30, 2004. In addition, the Board chairperson resigned in January 2005 and has not been replaced. As a result, the Board's vice chairperson presides over the meetings.

The Financially Distressed City Law (Law) (65 ILCS 5/8-12-7) establishes a board of five directors appointed by the Governor and states the Governor shall select one board member as chairperson. Section 65 ILCS 5/8-12-9 requires the chairperson to preside at the meetings.

Authority personnel stated that they have written to the Office of the Governor and requested an appointment of a chairperson and replacements for the current board members with no resolution.

Noncompliance with the provisions of the Law is a violation of State statute. (Finding Code No. 06-7)

Recommendation

We recommend the Authority continue to request Board appointments from the Office of the Governor.

Authority Response

The Authority Agrees: The Authority's Board of Directors does not have the number of directors required by State statute. Several contacts have been made previously by phone and by letter. The Authority will ensure ongoing contact with the Governor's Office to request a new board member and to request replacement board members for several of the current members which have expressed an interest in being replaced. After making the contacts, however, the appointments are out of the Authority's control.

State Of Illinois—East St. Louis Financial Advisory Authority
SCHEDULE OF FINDINGS
PRIOR FINDING NOT REPEATED – State Compliance
For the Two Years Ended June 30, 2006
(Continued)

06-8 Noncompliance with the Illinois Governmental Ethics Act

Finding

During the prior period, a member of the Board of Directors did not submit an Economic Interest Statement for fiscal year 2004. This member was an active member of the Board of Directors at the time the form was due.

During the current period, we noted the board member in question submitted a letter of resignation clarifying his intention to renounce his duties as a board member. We also noted that all other applicable persons filed economic interest statements in a timely manner during the examination period.

Status

Implemented (Finding Code No. 04-2)

State Of Illinois—East St. Louis Financial Advisory Authority
FINANCIAL STATEMENT REPORT
SUMMARY
For the Two Years Ended June 30, 2006

The audit of the accompanying basic financial statements of the State of Illinois- East St. Louis Financial Advisory Authority (Authority) was performed by Schorb & Schmersahl, LLC.

Based on their audit, the auditors expressed an unqualified opinion on the Authority's basic financial statements.



Independent Auditors' Report

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying basic financial statements of the governmental activities of the State of Illinois – East St. Louis Financial Advisory Authority (the “Authority”), a component unit of the State of Illinois, as of and for the year ended June 30, 2006, which collectively comprise the Authority’s basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority’s management. Our responsibility is to express opinions 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 the 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 B, the financial statements of the Authority are intended to present the financial position and changes in financial position of only that portion of the governmental activities of the State that is attributable to the transactions of the Authority. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2006, and its changes in financial position for the year then ended in conformity with 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 respective financial position of the governmental activities of the State of Illinois – East St. Louis Financial Advisory Authority, as of June 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 13, 2006 on our consideration of the 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 result of our audit.

The Authority has not presented a management's discussion and analysis and budgetary comparison information for the General Revenue Fund and Special Revenue Fund 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.

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



Columbia, Illinois

October 13, 2006

State Of Illinois—East St. Louis Financial Advisory Authority
STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS
BALANCE SHEET
 June 30, 2006

ASSETS

	General Revenue Fund	Corporate Savings Fund	Total Governmental Funds	Adjustments	Statement of Net Assets
CURRENT ASSETS					
Unexpended appropriations	\$2,381	-	\$ 2,381	\$ -	\$ 2,381
Cash and cash equivalents	-	249,903	249,903	-	249,903
Investments	-	5,797,697	5,797,697	-	5,797,697
Capital assets, net	-	-	-	-	-
Total Assets	\$2,381	\$6,047,600	\$6,049,981	\$ -	\$6,049,981

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES					
Accounts payable	\$2,381	\$ 380	\$ 2,761	\$ -	\$ 2,761
NONCURRENT LIABILITIES					
Compensated absences	-	-	-	3,000	3,000
Total Liabilities	2,381	380	2,761	3,000	5,761
FUND BALANCE/NET ASSETS					
Unreserved	-	6,047,220	6,047,220	(6,047,220)	-
Invested in capital assets, net of related debt	-	-	-	-	-
Unrestricted	-	-	-	6,044,220	6,044,220
Total Fund Balance/Net Assets	-	6,047,220	6,047,220	(3,000)	6,044,220
Total Liabilities and Fund Balance	\$2,381	\$6,047,600	\$6,049,981	\$ -	\$6,049,981

The accompanying notes are an integral part of these financial statements.
 (22)

State Of Illinois—East St. Louis Financial Advisory Authority
RECONCILIATION OF GOVERNMENTAL FUNDS
BALANCE SHEET TO STATEMENT OF NET ASSETS
June 30, 2006

Total Fund Balances – Governmental Funds	\$6,047,220
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

Some liabilities reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as liabilities in governmental funds. These activities consist of:

Compensated absences	(<u>3,000</u>)
----------------------	------------------

Net Assets of Governmental Activities	<u>\$6,044,220</u>
---------------------------------------	--------------------

The accompanying notes are an integral part of these financial statements.

State Of Illinois—East St. Louis Financial Advisory Authority
**STATEMENT OF ACTIVITIES AND GOVERNMENTAL REVENUES,
EXPENDITURES AND CHANGES IN NET ASSETS**
For the Year Ended June 30, 2006

	General Revenue Fund	Corporate Savings Fund	Total Governmental Funds	Adjustments	Statement of Activities
EXPENDITURES/EXPENSES					
Total operating expenses of the East St. Louis Financial Advisory Authority	\$210,247	\$ 440	\$ 210,687	\$210	\$ 210,897
PROGRAM REVENUES					
Total interest and investment income	-	214,099	214,099	-	214,099
OTHER SOURCES					
Total appropriations from State resources	210,247	-	210,247	-	210,247
Increase in Fund Balance/Net Assets	-	213,659	213,659	(\$210)	213,449
FUND BALANCE/NET ASSETS, July 1, 2005	-	5,833,561	5,833,561		5,830,771
FUND BALANCE/NET ASSETS, June 30, 2006	\$ -	\$6,047,220	\$6,047,220		\$6,044,220

The accompanying notes are an integral part of these financial statements.
(24)

State Of Illinois—East St. Louis Financial Advisory Authority
RECONCILIATION OF STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN NET ASSETS OF
GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2006

Net Change in Fund Balances \$213,659

Amounts reported for governmental activities in the Statement
of Activities are different because:

Some expenses reported in the Statement of Activities do not require
the use of current financial resources, and thus, are not reported as
expenditures in governmental funds. These activities consist of:

Compensated absences (210)

Changes in Net Assets of Governmental Activities \$213,449

The accompanying notes are an integral part of these financial statements.

State Of Illinois—East St. Louis Financial Advisory Authority
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

A. **ORGANIZATION**

The East St. Louis Financial Advisory Authority (Authority) was established by provisions of the Financially Distressed City Law (65 ILCS 5/8-12-5). The Authority was created to provide a secure financial basis for and to furnish assistance to the City of East St. Louis (City). The governing body of the Authority consists of five (5) Directors. The Directors are appointed by the Governor, with the advice and consent of the Senate.

B. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Authority have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as prescribed by Governmental Accounting Standards Board (GASB). To facilitate the understanding of data included in the financial statements, summarized below are the more significant accounting policies.

Financial Reporting Entity

As defined by GAAP, the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as:

- 1) Appointment of a voting majority of the component unit's board and either (a) the primary government's ability to impose its will, or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or
- 2) Fiscal dependency on the primary government.

Based upon the required criteria, the Authority is a discretely determined component unit of the State of Illinois' reporting entity. The State of Illinois' Comprehensive Annual Financial Report (CAFR) further describes the State's reporting entity and may be obtained by writing to the State Comptroller's Office, Financial Reporting Department, 325 West Adams Street, Springfield, Illinois 62704-1871.

Basis of Presentation

The financial activities of the Authority are reported as a discretely presented component unit in the State of Illinois' CAFR. For its reporting purposes, the Authority has combined the fund and government-wide financial statements using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column. A brief description of the Authority's government-wide and fund financial statements is as follows:

State Of Illinois—East St. Louis Financial Advisory Authority
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006
(Continued)

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

Basis of Presentation (Continued)

Government-wide Statements: The government-wide statement of net assets and statement of activities report the overall financial activity of the Authority. Eliminations have been made to minimize the double counting of internal activities of the Authority. The financial activities of the Authority consist only of governmental activities, which are primarily supported by intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function (i.e. general government) are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the Authority's funds. Separate statements for each fund category are presented. The emphasis on fund financial statements is on a major governmental fund, each displayed in a separate column.

The Authority administers the following major governmental funds (or portions thereof in the case of shared funds—see note on page 27) of the State:

General—This is the State's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The Authority administers and accounts for general government services in the General Fund. Certain resources obtained from federal grants and used to support general governmental activities are accounted for in the General Fund consistent with applicable legal requirements.

Corporate Savings—This fund is used to account for repayments of State loan funds received from the City. Expenditures from this fund are made to support activities leading to a restructuring of the City's debt and to enhance earnings on public funds through investments.

Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place.

State Of Illinois—East St. Louis Financial Advisory Authority
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006
(Continued)

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

Basis of Accounting (Continued)

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures are generally recorded when the liability is incurred, as under accrual accounting. However, principal and interest on general long-term debt, claims and judgments, and compensated absences are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Significant revenue sources which are susceptible to accrual include interest. All other revenue sources including miscellaneous revenues are considered to be measurable and available when cash is received.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of GASB.

Shared Fund Presentation

The financial statement presentation for the General Revenue Fund presents only the portion of the shared fund that can be directly attributed to the operations of the Authority. Financial statements for the total fund operations of the General Fund is presented in the State of Illinois' CAFR.

In presenting these financial statements, certain unique accounts are used for the presentation of shared funds. The following accounts are used in these financial statements to present the Authority's portion of shared funds:

Unexpended Appropriations

This "asset" account represents lapse period warrants issued between July and August annually in accordance with the Statewide Accounting Management System (SAMS) records plus any liabilities relating to obligations re-appropriated to the subsequent fiscal year.

Appropriations from State Resources

This "other financing source" account represents the final legally adopted appropriation according to SAMS records. The amounts reported are net of any re-appropriations to subsequent years and the difference between current and prior year liabilities for re-appropriated accounts. Re-appropriations reflect the State's realignment of the budgetary needs to the subsequent year and avoid double counting a portion of the appropriation in more than one fiscal year.

State Of Illinois—East St. Louis Financial Advisory Authority
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006
(Continued)

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

Shared Fund Presentation (Continued)

Lapsed Appropriations

Lapsed appropriations are the legally adopted appropriations less net warrants issued for the 14-month period from July to August of the following year and re-appropriations to subsequent years according to SAMS records.

Cash and Cash Equivalents

Cash and cash equivalents at the Authority consist of cash held in banks for locally held funds, and funds held in a governmental trust by the Authority's broker.

Investments

Investments are stated at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and include accrued interest. Changes in the unrealized gains (loss) on the carrying value of the investments are reported as a component of investment income in the Statement of Revenues, Expenses, and Changes in Net Assets.

Compensated Absences

The liability for compensated absences reported in the government-wide financial statements consists of unpaid, accumulated vacation and sick leave balances for employees of the Authority. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The liability has been calculated based on the employees' current salary level and includes salary related costs.

Legislation that became effective January 1, 1998 capped the paid sick leave for all State Employees' Retirement System members at December 31, 1997. Employees continue to accrue twelve (12) sick days per year, but will not receive monetary compensation for any additional time earned after December 31, 1997. Sick days earned between 1984 and December 31, 1997 (with a 50% cash value) would only be used after all days with no cash value are depleted. Any sick days earned and unused after December 31, 1997 will be converted to service times for purposes of calculating employee pension benefits.

Capital Assets

Capital assets, which include property, plant, and equipment, are reported at cost or estimated historical cost based on appraisals. Contributed assets are reported at estimated fair value at the time received. Capital assets are depreciated using the straight-line method.

State Of Illinois—East St. Louis Financial Advisory Authority
 NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2006
 (Continued)

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

Capital Assets (Continued)

Capitalization thresholds and the estimated useful lives are as follows:

<u>Capital asset category</u>	<u>Capitalization threshold</u>	<u>Estimated useful life</u>
Equipment	\$5,000	3 – 6

Fund Balances

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for specific purposes. Designations of fund balances represent tentative State plans that are subject to change.

Net Assets

In the government-wide financial statements, equity is displayed in three components as follows:

Invested in Capital Assets, Net of Related Debt—This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted—This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the State’s policy to use restricted resources first, then unrestricted resources when they are needed.

Unrestricted—This consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”

Classification of Revenues and Expenses

The Authority has classified its revenues and expenses as either operating or non-operating revenues and expenses according to the following criteria:

Operating Revenues and Expenses—These include expense activities that have the characteristics of exchange transactions, such as salaries and commodities, along with revenue from the State’s funding of these activities. These activities are principally recorded in the General Revenue Fund.

State Of Illinois—East St. Louis Financial Advisory Authority
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006
(Continued)

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Classification of Revenues and Expenses (Continued)

Non-Operating Revenues and Expenses—These include activities that have the characteristics of non-exchange transactions and other revenue sources that are defined as non-operating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Government Entities That Use Proprietary Fund Accounting*, and GASB No. 34, such as investment income. These activities are recorded in the Corporate Savings Fund.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

C. CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents

The State Treasurer is the custodian of the State's cash and cash equivalents for funds maintained in the State Treasury. The Authority independently manages cash and cash equivalents maintained outside of the State Treasury.

Cash on deposit for locally held funds had both a carrying amount and bank balance of \$154,352 at June 30, 2006. Of the total bank balances, \$100,000 was insured through the Federal Depository Insurance Corporation (FDIC). The remaining \$54,352 was collateralized with pooled securities held by the financial institution's trust department. These securities are held in the name of the financial institution and not that of the state. In addition, the Authority had \$95,551 held in a governmental trust with its broker at June 30, 2006.

Investments

It is the policy of the Authority to invest its "locally held funds" in a manner which will: (a) ensure the safety of principal; (b) provide the highest investment return using authorized investment instruments; and (c) manage liquidity to pay Authority obligations, as required; all in conformance with the Illinois Public Funds Investment Act (30 ILCS 235).

The Act authorizes public agencies, including the State of Illinois Primary Government and its Component Units, to engage in a wide variety of investment activities. These include bonds, notes, certificates of indebtedness, treasury bills, or other securities now or hereafter issued, which are guaranteed by the full faith and credit of the United States of America as to principal and interest. However, the statute requires that securities purchased shall mature or be redeemable prior to the date when they will be required for expenditure.

State Of Illinois—East St. Louis Financial Advisory Authority
 NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2006
 (Continued)

C. **CASH AND CASH EQUIVALENTS AND INVESTMENTS** (Continued)

Investments (Continued)

At June 30, 2006, the Agency had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1 – 5</u>	<u>6 – 10</u>	<u>More Than 10</u>
U.S. Treasury Notes	\$5,797,697	\$5,797,697	\$0	\$0	\$0
Total	<u>\$5,797,697</u>	<u>\$5,797,697</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Authority holds U.S. Treasury Notes with A.G. Edwards with an average maturity of six months. The Authority does not have a policy that specifically defines and addresses interest rate risk.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to a debt instrument will not fulfill its obligations. The Authority's investments consist of U.S. Treasury Notes which are guaranteed by the full faith and credit of the United States of America as to principal and interest. The Authority does not have a policy that specifically defines and addresses credit risk.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the concentration of an entity's investment in a single issuer.

At the year-end, 100% of the Authority's investments were U.S. Treasury Notes which are guaranteed by the U.S. government.

D. **CAPITAL ASSETS**

Capital asset activity (amounts expressed in thousands) for the year ended June 30, 2006 was as follows:

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Net Transfers</u>	<u>Balance June 30, 2006</u>
Capital Assets Being Depreciated:					
Equipment	\$13,749	\$ -	\$6,845	\$ -	\$6,904
Less: Accumulated Depreciation:					
Equipment	<u>13,749</u>	<u>-</u>	<u>6,845</u>	<u>-</u>	<u>6,904</u>
Total Capital Assets Being Depreciated, Net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

State Of Illinois—East St. Louis Financial Advisory Authority
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006
(Continued)

E. PENSION PLAN

Substantially all of the Authority's full-time employees who are not eligible for participation in another state-sponsored retirement plan participate in the State Employees' Retirement System (SERS), which is a pension trust fund in the State of Illinois reporting entity. The SERS is a single-employer defined benefit public employee retirement system (PERS) in which State employees participate, except those covered by the State Universities, Teachers', General Assembly, and Judges' Retirement Systems. The financial position and results of operation of the SERS for fiscal year 2006 are included in the State of Illinois' Comprehensive Annual Financial Report for the year ended June 30, 2006. The SERS issues a separate CAFR that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois, 62794-9255.

A summary of SERS benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the SERS' CAFR. Also included is a discussion of employer and employee obligations to contribute and the authority under which those obligations are established.

The Authority pays employer retirement contributions based on an actuarially determined percentage of their payrolls. For fiscal year 2006, the employer contribution rate was 7.792%. Effective for pay periods beginning after December 31, 1991, the State opted to pay the employee portion of retirement for most State agencies (including the Authority) with employees covered by the State Employees' and Teachers' Retirement Systems. Generally, this "pickup" of employee retirement was part of the fiscal year 2006 budget process. The pickup is subject to sufficient annual appropriations and those employees covered may vary across employee groups and State agencies.

F. POST-EMPLOYMENT BENEFITS

The State provides health, dental and life insurance benefits for certain retirees and their dependents. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health and dental benefits include basic benefits for annuitants under the State's self-insurance plan and insurance contracts currently in force. Life insurance benefits are limited to \$5,000 per annuitant age 60 and older.

Costs incurred for health, dental, and life insurance for annuitants and their dependents were not separated from benefits provided to active employees and their dependents for the year ended June 30, 2006. However, post-employment costs for the State as a whole for all State agencies/departments for dependent health, dental and life insurance for annuitants and their dependents are disclosed in the Illinois Comprehensive Annual Financial Report for the State. Cost information for retirees by individual State agency is not available. Payments are made on a "pay-as-you-go" basis.

State Of Illinois—East St. Louis Financial Advisory Authority
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006
(Continued)

G. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; workers compensation and natural disasters. The State retains the risk of loss (i.e. self-insured) for these risks.

The Authority's risk management activities are financed through appropriations to the Illinois Department of Central Management Services and are accounted for in the General Fund of the State. The claims are not considered to be a liability of the Authority; and accordingly, have not been reported in the Authority's financial statements for the year ended June 30, 2006.

H. INTEREST REVENUE

Interest revenue is composed of the following amounts:

Interest earned on Corporate Savings Fund (1302)	\$ 801
Investment earnings	<u>213,298</u>
Total Interest and Investment Income	<u>\$214,099</u>

I. LEASE

The Authority leases office space from the State of Illinois in the Kenneth Hall State Regional Office Building in East St. Louis.

Rent expenses was \$0 for the year ended June 30, 2006. No in-kind revenue or expense has been recorded for this item.

There are no future minimum lease commitments.

State Of Illinois—East St. Louis Financial Advisory Authority
SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES
SUMMARY
For the Two Years Ended June 30, 2006

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 Locally-Held Funds (Accrual Basis)
- Schedule of Changes in State Property
- Explanation of Significant Variations in Expenditures
- Explanation of Significant Variations in Receipts
- Analysis of Significant Lapse Period Spending
- Analysis of Significant Account Balances

- Analysis of Operations:

- Authority Functions and Planning Program
- Average Number of Employees
- Loan Agreement
- Locally Held Funds
- Emergency Purchases
- Illinois First Projects
- Service Efforts and Accomplishments (Unaudited)

The auditors' report that covers the Supplementary Information for State Compliance Purposes presented in the Compliance Report Section states that it has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in the auditors' opinion, except for that portion marked "unaudited," on which they express no opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

State Of Illinois—East St. Louis Financial Advisory Authority
 SCHEDULE OF APPROPRIATIONS, EXPENDITURES
 AND LAPSED BALANCES
 Appropriations for Fiscal Year 2006
 Fourteen Months Ended August 31, 2006

<u>Public Act 94-0015</u>	Appropriations (Net After Transfers)	Expenditures Through 6/30/2006	Lapse Period Expenditures 7/1-8/31/2006	Total Expenditures	Balances Lapsed
Appropriated funds:					
General Revenue Fund - 001					
Operating expenses of the East St. Louis Financial Advisory Authority					
	\$220,000	\$207,866	\$2,381	\$210,247	\$9,753
Grand Total – All Funds	<u>\$220,000</u>	<u>\$207,866</u>	<u>\$2,381</u>	<u>\$210,247</u>	<u>\$9,753</u>

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

State Of Illinois—East St. Louis Financial Advisory Authority
 SCHEDULE OF APPROPRIATIONS, EXPENDITURES
 AND LAPSED BALANCES

(Continued)

Appropriations for Fiscal Year 2005
 Fourteen Months Ended August 31, 2005

Public Act 93-0842	Appropriations (Net After Transfers)	Expenditures Through 6/30/2005	Lapse Period Expenditures 7/1-8/31/2005	Total Expenditures	Balances Lapsed
Appropriated funds:					
General Revenue Fund - 001					
Operating expenses of the East St. Louis Financial Advisory Authority	\$243,400	\$207,665	\$960	\$208,625	\$34,775
Grand Total – All Funds	\$243,400	\$207,665	\$960	\$208,625	\$34,775

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

State Of Illinois—East St. Louis Financial Advisory Authority
 COMPARATIVE SCHEDULE OF NET APPROPRIATIONS,
 EXPENDITURES AND LAPSED BALANCES
 For the Years Ended June 30, 2006, 2005, and 2004

<u>General Revenue Fund – 001</u>	2006 <u>PA 94-0015</u>	2005 <u>PA 93-0842</u>	2004 <u>PA 93-65</u>
Appropriations (net after transfers)	\$220,000	\$243,400	\$253,600
Expenditures			
Operating expenses of the East St. Louis Financial Advisory Authority	<u>210,247</u>	<u>208,625</u>	<u>200,524</u>
Total Expenditures	<u>210,247</u>	<u>208,625</u>	<u>200,524</u>
Total Lapsed Balances	<u>\$ 9,753</u>	<u>\$ 34,775</u>	<u>\$ 53,076</u>

State Of Illinois—East St. Louis Financial Advisory Authority
 COMPARATIVE SCHEDULE OF LOCALLY-HELD FUNDS
 (ACCRUAL BASIS)
 For the Years Ended June 30, 2006, 2005, and 2004

<u>Corporate Savings Fund - 1302</u>	<u>2006</u>	<u>2005</u>	<u>2004^A</u>
Balance, July 1	<u>\$5,833,561</u>	<u>\$5,723,746</u>	<u>\$5,696,039</u>
Interest and investment income	<u>214,099</u>	<u>136,638</u>	<u>27,707</u>
Total Revenues	<u>214,099</u>	<u>136,638</u>	<u>27,707</u>
Contractual services	<u>440</u>	<u>26,823</u>	<u>-</u>
Total Expenditures	<u>440</u>	<u>26,823</u>	<u>-</u>
Balance, June 30	<u><u>\$6,047,220</u></u>	<u><u>\$5,833,561</u></u>	<u><u>\$5,723,746</u></u>

(A) The fiscal year 2004 amounts have been revised to reflect accrued interest and bond accretion which should be included as investment income.

State Of Illinois—East St. Louis Financial Advisory Authority
 SCHEDULE OF CHANGES IN STATE PROPERTY
 For the Years Ended June 30, 2006 and 2005

Beginning Balance, July 1, 2004	\$94,300
Additions	-
Deletions	<u>-</u>
Net transfers	<u>-</u>
Ending Balance, June 30, 2005	<u>\$94,300</u>
Beginning Balance, July 1, 2005	\$94,300
Additions	2,051
Deletions	(<u>8,894</u>)
Net transfers	(<u>6,843</u>)
Ending Balance, June 30, 2006	<u>\$87,457</u>

Note: Information was obtained from Authority records and reconciled to property reports submitted to the Office of the Comptroller.

State Of Illinois—East St. Louis Financial Advisory Authority
EXPLANATION OF SIGNIFICANT VARIATIONS IN EXPENDITURES
For the Years Ended June 30, 2006, 2005, and 2004

General Revenue Fund - 001	Fiscal Year		
	2006	2005	2004
Personal services	\$184,894	\$190,156	\$184,055
Contractual services	14,651	11,876	8,786
Travel	2,701	2,590	2,336
Commodities	4,099	1,352	2,346
Printing	1,078	125	-
Equipment	-	-	415
Electronic data processing	-	-	-
Telecommunications	2,824	2,526	2,586
Total General Revenue Fund Expenditures	210,247	208,625	200,524
<u>Corporate Savings Fund - 1302</u>			
Total Corporate Savings Fund Expenditures	440	26,823	-
Total Expenditures – All Funds	\$210,687	\$235,448	\$200,524

Scope: GRF (001): Variances > \$5,000 and 20%
CSF (1302): Variances > \$40,000 and 20%

No variances exceeded the scope.

State Of Illinois—East St. Louis Financial Advisory Authority
EXPLANATION OF SIGNIFICANT VARIATIONS IN RECEIPTS
For the Two Years Ended June 30, 2006

See the Comparative Schedule of Revenues, Expenditures and Fund Balance – Locally Held Funds on page 37 of this report.

Scope: Variances > \$40,000 and 20%

The increase in the interest and investment income from 2004 to 2005 is a result of the substantial increase in the average balance of invested funds in 2005 over 2004. This is a direct result of the collection of outstanding loan balances on the City of East St. Louis loan.

The increase in the interest and investment income from 2005 to 2006 is a result of the increase in the interest rate associated with governmental securities in 2005 and 2006.

State Of Illinois—East St. Louis Financial Advisory Authority
 ANALYSIS OF SIGNIFICANT LAPSE PERIOD SPENDING
 For the Years Ended June 30, 2006 and 2005

Description	Fiscal Year 2006			
	Expenditures Through 6/30/2006	Lapse Period Expenditures	Total Expenditures	Percentage of Total
Personal services	\$184,894	\$ -	\$184,894	0%
Contractual services	13,852	799	14,651	5%
Travel	2,416	285	2,701	11%
Commodities	3,008	1,091	4,099	27% ^A
Printing	1,078	-	1,078	0%
Equipment	-	-	-	0%
Electronic data processing	-	-	-	0%
Telecommunications	2,618	206	2,824	7%
Total	\$207,866	\$2,381	\$210,247	1%

Description	Fiscal Year 2005			
	Expenditures Through 6/30/2005	Lapse Period Expenditures	Total Expenditures	Percentage of Total
Personal services	\$190,156	\$ -	\$190,156	0%
Contractual services	11,696	180	11,876	2%
Travel	2,272	318	2,590	12%
Commodities	1,177	175	1,352	13%
Printing	125	-	125	0%
Equipment	-	-	-	0%
Electronic data processing	-	-	-	0%
Telecommunications	2,239	287	2,526	11%
Total	\$207,665	\$960	\$208,625	1%

SCOPE: 20%

(A) The fiscal year 2006 lapse period commodities expenditures represent a computer and related hardware and software purchased in June 2006.

State Of Illinois—East St. Louis Financial Advisory Authority
 ANALYSIS OF SIGNIFICANT ACCOUNT BALANCES
 For the Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>	<u>Increase/ Decrease</u>
Corporate Savings Fund:			
Cash and cash equivalents	\$ 249,903	\$ 216,450	\$ 33,453
Investments	5,797,697	5,617,111	180,586

Scope: Variance > 20%

No variances exceeded the scope.

State Of Illinois—East St. Louis Financial Advisory Authority
 ANALYSIS OF SIGNIFICANT ACCOUNT BALANCES
(Continued)
 For the Years Ended June 30, 2006 and 2005

	2005	2004	Increase/ Decrease
Corporate Savings Fund:			
Cash and cash equivalents	\$ 216,450	\$3,124,814	(\$2,908,364) ⁽¹⁾
Investments	5,617,111	2,598,932	3,018,179 ⁽¹⁾

Scope: Variance > 20%

- (1) The decrease in cash and cash equivalents and increase in investments is caused primarily by a \$2,850,000 US T-Note that matured on June 30, 2004. At June 30, 2005, all surplus cash was invested in a US Treasury Note.

State Of Illinois—East St. Louis Financial Advisory Authority
ANALYSIS OF OPERATIONS
For the Two Years Ended June 30, 2006

INTRODUCTION

During the audit period, the State of Illinois – East St. Louis Financial Advisory Authority (Authority) received two lump sum appropriations (one for each fiscal year) from the General Revenue Fund to provide for the operating expenses of the Authority.

AUTHORITY FUNCTIONS AND PLANNING PROGRAM

The State of Illinois, East St. Louis Financial Advisory Authority (Authority) was established on August 30, 1990. The purpose of the Authority is to provide a secure financial basis for and to furnish assistance to the City of East St. Louis (City). The Authority issued a loan of \$3,795,000 to the City in Fiscal Year 1991, allowing the City to provide basic municipal services and meet its obligations to creditors.

The Authority has statutory powers to:

- Provide for its organizations and internal management,
- Make rules and regulations governing the use of property and facilities,
- Make and execute contracts, leases, and other instruments or agreements necessary or convenient for the exercise of its powers,
- Approve all loans, grants, or other financial aid from any State agency to the City,
- Appoint officers, agents, and employees of the Authority,
- Engage the services of consultants for rendering professional and technical assistance and advice on matters within the Authority's power,
- Pay the expenses of operations, and
- Determine the terms and conditions of any loans made to the City.

The Authority is made up of a governing board of five Directors appointed by the Governor, with the advice and consult of the Senate, with one serving as the Authority Chairperson. The Directors serve without compensation. The Directors are appointed to hold office for a term of three years and until his or her successor has been appointed. The members of the Board of Directors at June 30, 2006 were

- Dr. Katie H. Wright, Vice Chairperson
- Otis Cowan
- Anthony “Tony” Grant
- Jacqueline R. Settles
- Chairperson Position is Vacant

The City is required to develop and adopt budgets and financial plans annually and during interim periods as directed by the Authority. The Authority has the power to approve or reject any budgets, financial plans, or contracts that are inconsistent with the budget or financial plan of the City.

State Of Illinois—East St. Louis Financial Advisory Authority
ANALYSIS OF OPERATIONS
For the Two Years Ended June 30, 2006
(Continued)

AUTHORITY FUNCTIONS AND PLANNING PROGRAM (Continued)

The Authority's Executive Director was W. Kenneth Gearhart from September 1, 1998 until October 31, 2006. Melinda Carlton assumed the Executive Director duties on November 1, 2006. The Executive Director's duties include having signature authority for all expenditures made from the proceeds of any State loans, advising the City on preparation of a financial plan and budget, and monitoring expenditures of the City. The Authority had a contract with R. Bruce Patterson to serve as the Authority's Legal Counsel that was effective until November 2005. Mr. Patterson resigned and his position has not been filled.

Planning Program

The Authority has developed a planning document that includes long-term and short-term goals. The long-term goals developed by the Authority include:

- To change the method of approving City expenditures,
- To analyze the long-term impact on financial recovery of having the entire city included in a TIF district,
- To develop a role in the City's effectiveness and productivity improvements, and
- To develop a role in the development of a comprehensive recovery plan for the City.

The Authority also established several short-term goals to assist in fulfilling its long-term objectives. Short-term goals are reviewed annually by the Authority. The Authority's short-term goals are to:

- Make a determination about the City's FY2005 audit,
- Monitor and report on the condition of the City's 2006 Budget,
- Monitor the status of TIF funding and obligations, and
- Monitor City compliance with the Three-Year Financial Plan

These goals are monitored through meetings held by the Authority. By reviewing the goals annually, the Authority is able to focus on areas that will enable it to more effectively carry out its statutorily mandated functions.

Auditor's Assessment of Planning Program

During the audit period, the Authority maintained an adequate planning program.

State Of Illinois—East St. Louis Financial Advisory Authority
ANALYSIS OF OPERATIONS
For the Two Years Ended June 30, 2006
(Continued)

AUTHORITY FUNCTIONS AND PLANNING PROGRAM (Continued)

Authority Location and Management

- Chairperson: VACANT

- Executive Director: W. Kenneth Gearhart (retired October 31, 2006)
Executive Director: Melinda Carlton (effective November 1, 2006)

- Address: East St. Louis Financial Advisory Authority
Kenneth Hall State Regional Office Building
10 Collinsville Avenue
Suite 202
East St. Louis, Illinois 62201

AVERAGE NUMBER OF EMPLOYEES

The following information was prepared from the Authority's records and presents the average number of Authority and contractual employees for the fiscal year ended June 30,

	FY2006	FY2005	FY2004
Payroll Employees	3	3	3
Contractual Employees	0	0	0
Total Employees	<u>3</u>	<u>3</u>	<u>3</u>

The Authority began utilizing the State of Illinois Central Payroll System in FY 1996. All Authority employees, excluding Legal Counsel, are payroll employees.

During FY2005 and FY2006, the Authority's governing board consisted of four Directors appointed by the Governor, who served without compensation. Through November 2005, the Authority also contracted for legal services necessary to assist in the affairs of the Authority. From December 2005 to the present, the legal position has been vacant.

LOAN AGREEMENT

The Authority loaned a total of \$3,795,000 to the City of East St. Louis (City) during FY1991. The loan agreement required the City to make quarterly loan repayments beginning in FY1994. The Authority's governing legislation was amended in FY 1995 to allow the Authority to use loan repayment funds to assist with the restructuring of the City's debt. The Authority pledged the first two loan payments to assist the City in obtaining financing to purchase fire-fighting equipment. During FY1996, the City fulfilled the terms of the loan and the provisional payments pledged by the Authority were released. The provisional payments have been applied against the loan principal. This loan was paid in full as of July 2003.

State Of Illinois—East St. Louis Financial Advisory Authority
ANALYSIS OF OPERATIONS
For the Two Years Ended June 30, 2006
(Continued)

LOCALLY HELD FUNDS

The Financially Distressed City Law (65 ILCS 5/8-12-6(c)) was amended in FY1995 to enable the Authority to deposit loan repayment funds received from the City into a revolving fund under the control of the Authority. These monies can be used by the Authority to support activities leading to the restructuring of the City's debt, and may be pledged as security for any new debt incurred by the City. The Authority held loan repayment monies in one locally held fund. The Corporate Savings Fund (1302) was administered by the Authority throughout FY2005 and FY2006.

Corporate Savings Fund (1302)

The Corporate Savings Fund was established to account for repayments of State loan funds received from the City and to support activities leading to a restructuring of the City's debt.

The roll forward schedules for the Authority's Locally Held Fund for the two fiscal years ended June 30, 2006 are presented on page 37 of this report.

EMERGENCY PURCHASES

The Authority did not engage in any emergency purchases during the audit period.

ILLINOIS FIRST PROJECTS

The Authority did not have any Illinois First Projects funded during the audit period.

SERVICE EFFORTS AND ACCOMPLISHMENTS (Unaudited)

The East St. Louis Financial Advisory Authority has been a central component in many positive developments for the City of East St. Louis (City); many times, it has been the prime motivator in the accomplishments. It has assisted in:

- Implementing a \$3,795,000 state loan to the City in 1991 and 1992 which was paid back in 2003, two years early.
- Restoring withheld IDOT Motor Fuel Tax (MFT) payments in 1991 by entering into an agreement for the City to repay \$2,885,142 in misused MFT funds. The monies were repaid in 2003, three years early.
- Establishing a riverboat gambling casino in 1993.
- Expanding the riverboat gambling casino and hotel through TIF revenue bonds in 1999.
- Restructuring the City's debt and liabilities in 1994 through the issuance of \$21,435,000 in Debt Restructuring Revenue Bonds and refunding the refundable portion in 2003.

State Of Illinois—East St. Louis Financial Advisory Authority
ANALYSIS OF OPERATIONS
For the Two Years Ended June 30, 2006
(Continued)

SERVICE EFFORTS AND ACCOMPLISHMENTS (Unaudited) (Continued)

- Designing a new Financial Management System (FMS) in 1999 and participating in monthly reviews of its performance.
- Hiring a Financial Management System Contractor in 2000 to manage, operate and maintain the FMS and participating in monthly meetings regarding performance and outcomes.
- Hiring a TIF consultant in 2003 to prepare options and recommendations for revisiting the City-wide TIF program to help reduce inordinately high property taxes.
- Initiating a self-insurance program and establishing appropriate self-insurance cash reserves.
- Initiating an internal control audit of the City's FMS in 2004, and
- Resolving accounting and budget problems and issues including advising on how to balance the budgets. The Authority approves the City's annual budget, annual Three-Year Financial Plan and contracts, purchase orders and personnel actions. The Authority serves as a source of managerial and financial expertise and advice to City management.