

SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY
SPECIAL LIMITED SCOPE COMPLIANCE EXAMINATION

For the Two Years Ended June 30, 2010

**SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY
SPECIAL LIMITED SCOPE COMPLIANCE EXAMINATION
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AGENCY OFFICIALS

SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY

Executive Director

Mr. Michael Lundy

Assistant Executive Director

Mr. Joe Gasparich

Authority office is located at:

1022 Eastport Plaza Drive
Collinsville, IL 62234



May 11, 2011

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

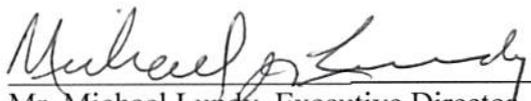
Dear Auditor General Holland:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the Southwestern Illinois Development Authority (Authority). We are responsible for and we have established and maintained an effective system of internal controls over compliance requirements. We have performed an evaluation of the Authority's compliance with the following assertions during the two-year period ended June 30, 2010. Based on this evaluation, we assert that during the years ended June 30, 2009 and June 30, 2010, the Authority has materially complied with the assertions below, except as reported in the schedule of findings.

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

Yours very truly,

Southwestern Illinois Development Authority


Mr. Michael Lundy, Executive Director

COMPLIANCE REPORT

SUMMARY

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

ACCOUNTANTS' REPORT

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

SUMMARY OF FINDINGS

<u>Number of</u>	<u>Current Report</u>	<u>Prior Report</u>
Findings	2	1
Repeated findings	1	0
Prior recommendations implemented or not repeated	0	0

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

SCHEDULE OF FINDINGS

FINDINGS (STATE COMPLIANCE)

<u>Item No.</u>	<u>Page</u>	<u>Description</u>	<u>Finding Type</u>
10-1	7	Failure to submit required certifications to the Governor	Material Noncompliance
10-2	9	Expenditures did not comply with appropriation bills	Noncompliance

PRIOR FINDINGS NOT REPEATED

The only material finding noted during the special limited scope compliance examination for the two years ended June 30, 2008, was repeated during the current examination.

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with Authority personnel at a meeting on March 8, 2011. Attending were:

Southwestern Illinois Development Authority

Michael Lundy, Executive Director
Joe Gasparich, Assistant Executive Director

Office of the Auditor General

Lisa Warden, Audit Manager
Adam Ausmus, Auditor

The responses to the recommendations were provided on May 5, 2011 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, 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 grant funds from the Illinois Department of Commerce and Economic Opportunity during the two years ended June 30, 2010. The management of the Authority is responsible for compliance with these requirements. Our responsibility is to express an opinion on the Authority's compliance based on our examination.

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

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

Our special limited scope compliance examination was restricted to appropriations made by the Illinois General Assembly to the Authority from the General Revenue Fund and related expenditures, as well as grant funds from the Illinois Department of Commerce and Economic Opportunity during fiscal years 2009 and 2010.

As described in finding 10-1 in the accompanying schedule of findings, the Authority did not comply with requirements regarding the submission of annual certifications of principal, interest, and reserve fund requirements to the Governor of Illinois as required by law. Compliance with such requirements is necessary, in our opinion, for the Authority to comply with the requirements listed in the first paragraph of this report.

In our opinion, except for the noncompliance described in the preceding paragraph, the Authority complied, in all material respects, with the requirements listed in the first paragraph of this report during the two years ended June 30, 2010. However, the results of our procedures disclosed another instance of noncompliance, 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 finding 10-2.

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

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

Supplementary Information for State Compliance Purposes

Our examination was conducted for the purpose of forming an opinion on compliance with the requirements listed in the first paragraph of this report. The accompanying supplementary information as listed in the table of contents as Supplementary Information for State Compliance Purposes is presented for purposes of additional analysis. We have applied certain limited procedures as prescribed by the Audit Guide, as adopted by the Auditor General to the 2009 and 2010 Supplementary Information for State Compliance Purposes. However, we do not express an opinion on the supplementary information.

We have not applied procedures to the 2008 Supplementary Information for State Compliance Purposes, and accordingly, we do not express an opinion thereon.

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



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

May 11, 2011

SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY
SCHEDULE OF FINDINGS
For the Two Years Ended June 30, 2010

10-1. **FINDING** (Failure to submit required certifications to the Governor)

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

During the current examination period, the Authority did not prepare and submit 3 of 7 (43%) required certifications to the Governor, certifying the amounts required to pay principal, interest, and reserve fund deficiencies for the bonds. The Authority received appropriations of \$2,512,000 in Fiscal Year 2011.

The Southwestern Illinois Development Authority Act (Act) (70 ILCS 520/7(f)) states in the event that the Authority determines that monies of the Authority will not be sufficient for the payment of the principal of and interest on its bonds during the next State fiscal year, the Chairman, as soon as practicable, shall certify to the Governor the amount required by the Authority to enable it to pay such principal of and interest on the bonds. The Act also requires a certification of the amount required to restore the debt service fund to the required level in the event of a withdrawal of monies from the debt service reserve fund for the payment of the principal of and interest on the Authority's bonds.

Authority management stated that for Fiscal Year 2011, the Authority responded to the Governor's Office of Management and Budget request for the necessary information by submitting an excel spreadsheet listing the moral obligation appropriations needed. Further, management stated that submitting any subsequent certifications would be unnecessary.

Failure to certify amounts required to pay principal, interest, and reserve fund deficiencies for bonds does not comply with appropriation controls implemented by the legislature. In addition, failure to prepare and submit certifications to the Governor is noncompliance with the Act. (Finding Code No. 10-1, 08-1)

RECOMMENDATION

We recommend the Authority's Chairman timely certify to the Governor the annual amounts required to pay the principal of and interest on its bonds, as well as amounts required to replenish the debt service reserve funds to the minimum balance, as required by the Act.

SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY
SCHEDULE OF FINDINGS
For the Two Years Ended June 30, 2010

Current Findings (Continued)

AUTHORITY RESPONSE

The Authority agrees with this finding and recommendation.

SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY
SCHEDULE OF FINDINGS
For the Two Years Ended June 30, 2010

10-2. **FINDING** (Expenditures did not comply with appropriation bills)

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

Public Acts 95-0733 and 96-0042 (Appropriation Acts) designated the expenditure authority for which the Authority was authorized to expend its appropriation. The Appropriation Acts specifically state the funds are to be used for the replenishment of draws on the debt service reserve fund backing bonds issued and related trustee and legal expenses.

We noted the following:

- Three of 20 (15%) vouchers tested, totaling \$600,000, were for principal and interest payments made on behalf of Alton Center Business Park. However, the appropriation, from which the Authority made the payments, states that the appropriated funds were to be used for the replenishment of a draw on the debt service reserve fund backing bonds issued on behalf of Alton Center Business Park.
- During Fiscal Years 2009 and 2010, the Authority expended appropriated funds totaling \$4,337,411 to trustees responsible for overseeing the Alton Center Business Park and Laclede Steel – Illinois bonds. According to the appropriation, the funds were for the replenishment of a draw on the debt service reserve fund backing bonds issued and related trustee and legal expenses. Only \$373,357 of the amounts paid to trustees were used to replenish the debt service reserve fund and to pay trustee and legal expenses as authorized. The remainder was used to make debt service principal and interest payments.

Authority management stated the appropriations were used for the payment of principal and interest, as anticipated, to avoid a default, which would require a draw on the debt service reserve fund. Further, management was not aware that wording of the appropriation bill must be consistent with the specific use of the appropriations for the payment of principal and interest.

Appropriations made by the General Assembly specify the purpose for which the public funds of the State may be expended. Expending money for costs other than those designated by the Appropriation Acts is statutory noncompliance and limits legislative control. (Finding Code No. 10-2)

SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY
SCHEDULE OF FINDINGS
For the Two Years Ended June 30, 2010

Current Findings (Continued)

RECOMMENDATION

We recommend the Authority work with the Governor's Office of Management and Budget to ensure future appropriations reflect the specific, anticipated use of State funds or seek a supplemental appropriation if needed to ensure expenditures from appropriated line items are used for the purpose for which they are appropriated.

AUTHORITY RESPONSE

The Authority agrees with this finding and recommendation.

SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY
SCHEDULE OF FINDINGS
For the Two Years Ended June 30, 2010

Prior Findings Not Repeated

The material finding noted during the special limited scope compliance examination for the two years ended June 30, 2008, was repeated during the current examination.

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
 - Comparative Schedule of Cash Receipts
 - Analysis of Significant Variations in Expenditures
 - Analysis of Significant Variations in Receipts

- Report Comments

The accountants' report that covers the Supplementary Information for State Compliance Purposes presented in the Compliance Report Section states the auditors have applied certain limited procedures as prescribed by the Audit Guide as adopted by the Auditor General to the 2009 and 2010 Supplementary Information for State Compliance Purposes. However, the accountants do not express an opinion on the supplementary information.

The accountants have not applied procedures to the 2008 Supplementary Information for State Compliance Purposes, and accordingly, do not express an opinion thereon.

STATE OF ILLINOIS
 SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY
SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES
 For The Fiscal Year Ended June 30, 2010

	Appropriations (Net of Transfers)	Expenditures Through June 30	Approximate		Approximate Total Expenditures 14 Months Ended August 31	Approximate Balances Lapsed August 31
			Lapse Period Expenditures July 1 to August 31	Expenditures Through June 30		
P.A. 96-0042 FISCAL YEAR 2010						
GENERAL REVENUE FUND-001						
Replenishment of a Draw on the Debt Service Reserve Fund Backing Bonds Issued and Related Trustee and Legal Expenses	\$ 3,309,300	\$ 2,568,707	\$ 0	\$ 2,568,707	\$ 740,593	
Total Fiscal Year 2010	<u>\$ 3,309,300</u>	<u>\$ 2,568,707</u>	<u>\$ 0</u>	<u>\$ 2,568,707</u>	<u>\$ 740,593</u>	

Note: Appropriations, expenditures, and lapsed balances were obtained from State Comptroller records and have been reconciled to records of the Authority. Expenditure amounts are vouchers approved for payment by the Authority and submitted to the State Comptroller for payment to the vendor. Approximate lapse period expenditures do not include interest payments approved for payment by the Authority and submitted to the Comptroller for payment after August.

STATE OF ILLINOIS
SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY
SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES
For The Fiscal Year Ended June 30, 2009

	Appropriations (Net of Transfers)	Lapse Period		Total Expenditures 14 Months Ended August 31	Balances Lapsed August 31
		Expenditures Through June 30	Expenditures July 1 to August 31		
GENERAL REVENUE FUND-001					
P.A. 95-0733 FISCAL YEAR 2009	\$ 694,600	\$ 269,484	\$ 0	\$ 269,484	\$ 425,116
Replenishment of a Draw on the Debt Service Reserve Fund Backing Bonds Issued on Behalf of Spectralite Consortium Inc.	\$ 366,200	\$ 363,162	\$ 0	\$ 363,162	\$ 3,038
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	\$ 971,300	\$ 665,000	\$ 0	\$ 665,000	\$ 306,300
Replenishment of a Draw on the Debt Service Reserve Fund Backing Bonds Issued on Behalf of Alton Center Business Park	\$ 1,483,200	\$ 1,469,564	\$ 0	\$ 1,469,564	\$ 13,636
Replenishment of a Draw on the Debt Service Reserve Fund Backing Bonds Issued on Behalf of Laclede Steel - Illinois	\$ 3,515,300	\$ 2,767,210	\$ 0	\$ 2,767,210	\$ 748,090
Total Fiscal Year 2009	<u>\$ 6,946,000</u>	<u>\$ 5,535,336</u>	<u>\$ 0</u>	<u>\$ 5,535,336</u>	<u>\$ 1,497,140</u>

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

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

	Fiscal Year		
	2010	2009	2008
<u>GENERAL REVENUE FUND-001</u>	<u>P.A. 96-0042</u>	<u>P.A. 95-0733</u>	<u>P.A. 95-0348</u>
Appropriations (Net of Transfers)	\$ 3,309,300	\$ 3,515,300	\$ 3,602,611
<u>Expenditures</u>			
Replenishment of a Draw on the Debt Service Reserve Fund Backing Bonds Issued on Behalf of Spectrulite Consortium Inc.	\$ 0	\$ 269,484	\$ 324,144
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	\$ 0	\$ 363,162	\$ 354,404
Replenishment of a Draw on the Debt Service Reserve Fund Backing Bonds Issued on Behalf of Alton Center Business Park	\$ 0	\$ 665,000	\$ 1,026,000
Replenishment of a Draw on the Debt Service Reserve Fund Backing Bonds Issued on Behalf of Laclede Steel-Illinois	\$ 0	\$ 1,469,564	\$ 1,387,409
Replenishment of a Draw on the Debt Service Reserve Fund Backing Bonds Issued and Related Trustee and Legal Expenses	\$ 2,568,707	\$ 0	\$ 0
Total Expenditures	<u>\$ 2,568,707</u>	<u>\$ 2,767,210</u>	<u>\$ 3,091,957</u>
Lapsed Balances	<u>\$ 740,593</u>	<u>\$ 748,090</u>	<u>\$ 510,654</u>

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

SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY
SCHEDULE OF STATE GRANT FUNDS – CASH BASIS
For the Two Years Ended June 30, 2010

The Authority received a \$250,000 grant from the Department of Commerce and Economic Opportunity in Fiscal Year 2008 pursuant to an appropriation for start up costs of the Mid America Medical District (District). The Authority began expending these funds during the examination period for the District’s master plan.

	<u>State Grant Funds</u>
Beginning Balance at July 1, 2008	\$ 250,000
Receipts	-
Disbursements	(750)
Ending Balance at June 30, 2009	\$ 249,250
Beginning Balance at July 1, 2009	\$ 249,250
Receipts	-
Disbursements	(184,400)
Ending Balance at June 30, 2010	\$ 64,850

Note: This schedule was prepared based on SWIDA records, which have been reconciled to bank statements. This schedule does not include accrued interest.

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

<u>State Grant Receipts</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Department of Commerce and Economic			
Opportunity grant for Mid-America	\$ 0	\$ 0	\$ 250,000
Medical District			
 Total Receipts	 <u>\$ 0</u>	 <u>\$ 0</u>	 <u>\$ 250,000</u>

SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY
ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES
For the Two Years Ended June 30, 2010

ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES BETWEEN FISCAL YEARS 2009 AND 2010

GENERAL REVENUE FUND – 001

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

The decrease in expenditures in fiscal year 2010 was due to the Spectrulite Consortium Inc. bonds being paid off during fiscal year 2009.

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 decrease in expenditures in fiscal year 2010 was due to the Authority receiving a lump sum appropriation for the replenishment of a draw on the Debt Service Reserve Fund rather than individual appropriations designated for a specific company.

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

The decrease in expenditures in fiscal year 2010 was due to the Authority receiving a lump sum appropriation for the replenishment of a draw on the Debt Service Reserve Fund rather than individual appropriations designated for a specific company.

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

The decrease in expenditures in fiscal year 2010 was due to the Authority receiving a lump sum appropriation for the replenishment of a draw on the Debt Service Reserve Fund rather than individual appropriations designated for a specific company.

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

The increase in expenditures in fiscal year 2010 was due to the Authority receiving one lump sum appropriation for the replenishment of draws on the Debt Service Reserve Fund for all bonds rather than individual appropriations designated for a specific bond issue.

SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY
ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES
For the Two Years Ended June 30, 2010

ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES BETWEEN FISCAL YEARS 2008 AND 2009

GENERAL REVENUE FUND – 001

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

The decrease in expenditures in fiscal year 2009 was due to the Authority expending additional funds at the end of fiscal year 2008 in order to prevent a default on the bonds for the July 1st payment. These additional funds were not needed at the end of fiscal year 2009.

SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY
ANALYSIS OF SIGNIFICANT VARIATIONS IN RECEIPTS
For the Two Years Ended June 30, 2010

ANALYSIS OF SIGNIFICANT VARIATIONS IN RECEIPTS BETWEEN FISCAL YEARS 2008 AND 2009

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

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

SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY
REPORT COMMENTS
For the Two Years Ended June 30, 2010

Authority Functions

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

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

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

Bond Issues In Default

On April 19, 1995, the Authority issued \$6,700,000 of Series 1995 Industrial Development Revenue Bonds on behalf of Spectrulite Consortium, Inc. On January 29, 2003, Spectrulite Consortium Inc. filed a petition for reorganization under Chapter 11 of the Bankruptcy Code. Subsequently, Spectrulite entered into a rental agreement, for which Authority management stated that the State's share of rental income applied to debt service payments was \$457,203 for fiscal year 2009 and \$611,771 for fiscal year 2010. According to Authority management, the Spectrulite bonds were called in full on April 15, 2009, and the Authority's final payment of principal and interest was made on February 1, 2009. Since the date of the Spectrulite bonds being called in full, the State has been receiving semi-annual reimbursements of its previous moral obligation payments. The last such reimbursement was made on February 1, 2011. Authority management stated that the rental income mentioned above began to be applied as reimbursement to the state rather than being applied to debt service payments after the Spectrulite bonds were called on April 15, 2009.

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

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

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

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 monies available to make any regularly scheduled payment of principal and interest on the bonds, the obligor is required to promptly advise the Authority, the trustee and the rating service in writing of such event and the reasons giving rise to such situation.

Alton Center Business Park did not notify the Authority, in writing, of its inability to pay principal and interest payments during the examination period. Waste Recovery only notified the Authority of its inability to pay principal and/or interest on its bonds for one of four (25%) payment dates during the examination period. Further, the letter prepared by Waste Recovery was not timely submitted to the Authority, as it was received five days after the payment due date. Spectrulite Consortium, Inc. and Laclede Steel Company were bankrupt, and therefore did not continue to notify the Authority of their inability to make payments of principal and interest after the bankruptcy notice.

State Moral Obligation

The Southwestern Illinois Development Act (70 ILCS 520/7(f)) states that if the Authority determines that its monies will not be sufficient for the payment of the principal and interest on its bonds, the Authority shall certify to the Governor the amount required in order to make such principal and interest payments. Additionally, in the event that payments are withdrawn from a debt service reserve fund for an Authority bond issue, the Authority shall certify to the Governor the amount required to restore the reserve fund to the required level. The Governor will then submit the amounts to the General Assembly in order for the Authority to be appropriated monies for such purposes. However, the Authority did not prepare and submit required certifications to the Governor during the examination period (see Finding 10-1 on page 7 for more information). The General Assembly made appropriations to the Authority in order to pay trustee and legal expenses and to replenish draws on the debt service reserve fund backing bonds issued on behalf of Waste Recovery-Illinois, Spectrulite Consortium, Inc., Alton Center Business Park, and Laclede Steel Company.

State Grant

On June 26, 2007, the Authority entered into a grant agreement with the Department of Commerce and Economic Opportunity (DCEO), which granted \$250,000 to the Authority for a

sub-grant to the Mid America Medical District (MAMD). The grant is to be used for general start up costs involved in establishing the East Saint Louis Mid America Medical District, its commission, and the development of the Master Plan for the district. Authority management stated that the grant and money were being handled by the Southwest Regional Manager for DCEO and the Authority was simply the holding agent for the funds, which have been invested in The Illinois Funds. Through the end of the examination period, \$185,150 of the grant funds had been expended. The grant expired on December 31, 2010. As of the close of our fieldwork, the Authority was in the process of closing out the grant.

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, 2010, Board members included:

Robert P. Lombardi, Chairman
James S. Nations
Reggie Sparks
Barbara S. Johnson
Khalil El-Amin
Robert L. Plummer
Jim Sullivan
Edie Koch
Roger E. Poole
Jim Stack
David Willey
Open position – Governor Appointee
Open position – Governor Appointee
Open position – Governor Appointee