SUMMARY REPORT DIGEST

ILLINOIS MEDICAL DISTRICT COMMISSION

FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
For the Year Ended: June 30, 2010
Release Date: March 17, 2011

Summary of Findings:

Total this audit:	**2**
Total last audit:	**2**
Repeated from last audit:	**1**

SYNOPSIS

- The Commission did not remit unexpended proceeds from the sale of Commission property into the Income Fund held in the State Treasury.

- The Commission did not comply with the Illinois Procurement Code.

{Expenditures and Activity Measures are summarized on the reverse page.}

ILLINOIS MEDICAL DISTRICT COMMISSION
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
For The Year Ended June 30, 2010

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS	2010	2009
OPERATING REVENUES		
Rental Income	$ 3,234,937	$ 3,955,762
Grants	-	741,589
Other Operating Revenues	17,722	90,410
Total Operating Revenues	$ 3,252,659	$ 4,787,761
OPERATING EXPENSES		
Property Management and Development	$ 2,436,863	$ 4,759,253
Grant Programs	-	512,911
Depreciation and Amortization	1,103,409	1,045,177
Total Operating Expenses	$ 3,540,272	$ 6,317,341
Operating Loss	$ (287,613)	$ (1,529,580)
NONOPERATING REVENUES (EXPENSES)		
Investment Income	$ 1,587,094	$ 1,525,091
Interest Expenses	(3,366,965)	(3,229,586)
Net Nonoperating Expenses	(1,779,871)	(1,704,495)
Loss Before Other Revenues, Expenses, Gains and Losses	$ (2,067,484)	$ (3,234,075)
Loss on Disposal of Capital Assets	(1,111,887)	-
Capital Transfers From Other State Agencies	13,399	102,306
Decrease in Net Assets	$ (3,165,972)	$ (3,131,769)

STATEMENT OF NET ASSETS	2010	2009
Assets		
Cash and Cash Equivalents	$ 1,014,389	$ 2,256,529
Accounts and Other Receivables	215,649	429,314
Notes Receivable	32,871,683	33,915,099
Investments	3,135,370	2,310,944
Debt Issuance Costs	673,370	706,084
Capital Assets, Other Assets, (net)	61,177,487	56,917,723
Total Assets	$ 99,087,948	$ 96,535,693
Liabilities		
Accounts Payable and Accrued Expenses	$ 452,680	$ 1,297,521
Interest Payable	794,208	802,820
Line of Credit	3,000,000	2,993,921
Certificates of Participation	26,635,000	27,315,000
Due to Other State Agencies	33,434,353	26,093,784
Other	353,573	448,541
Total Liabilities	$ 64,669,814	$ 58,951,587
Net Assets		
Invested in Capital Assets, (net)	$ 24,664,962	$ 27,678,461
Restricted	323,286	323,284
Unrestricted	9,429,886	9,582,361
Total Net Assets	$ 34,418,134	$ 37,584,106

AGENCY DIRECTOR
During Examination Period: Samuel Pruett
Currently: Samuel Pruett

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

FAILURE TO REMIT UNEXPENDED PROCEEDS FROM THE SALE OF COMMISSION PROPERTY INTO THE INCOME FUND HELD IN THE STATE TREASURY

The Illinois Medical District Commission (Commission) did not remit unexpended proceeds from the sale of Commission property to the State Treasury for deposit into the Medical Center Commission Income Fund.

The Illinois Medical District Act requires the Commission to remit to the State Treasury all moneys on hand (originating from the sale of Commission property) as of June 30 in excess of $350,000.

Unexpended proceeds of $8,152,049 were not remitted to the State Treasury

As of June 30, 2006 the unexpended portion of these proceeds totaled $7,877,969 and the Commission had not yet remitted any excess funds to the State Treasury

As of June 30, 2007 $4,000,000 was pledged as collateral for a bond offering and $4,000,000 as collateral for a bank line of credit – no changes were noted in fiscal years 2008-2010

During Fiscal Year 2004, the Commission sold real property to the Federal Bureau of Investigation. The proceeds from the sale totaled $10,688,767. As of June 30, 2005, an estimated $8,152,049 of those proceeds had not been expended or obligated and the Commission did not remit these excess funds to the State Treasury. As of June 30, 2006, the unexpended portion of these proceeds totaled $7,877,969, and the Commission had not yet remitted any excess funds to the State Treasury. As of June 30, 2007, funds in the amount of $4,000,000 were pledged as collateral for a $40 million bond offering and pursuant to a Commission Resolution dated May 23, 2006, the remainder of the funds were pledged as collateral for a $4,000,000 line of credit with a bank. There were no changes noted to the status of these funds in fiscal years 2008 through 2010. (Finding 1, pages 11-13)
This finding was first reported in 2005.

We recommended the Commission remit the excess moneys to the State Treasury for deposit into the Income Fund or seek statutory remedy.

Commission officials disagree

The Commission's response to this finding remains as stated in prior responses, that the Commission did not remit unexpended proceeds from the sale of Commission property to the State Treasury because the proceeds have been expended. As the Commission has noted in prior responses, $4,025,000 of the amounts that the Auditor General maintains must be deposited were expended upon the cash equity portion of bonds issued by the Illinois Finance Authority and the remainder was expended as collateral for a line of credit that was used in the acquisition of parcels of land by eminent domain.

The Commission acknowledges that both the Auditor General and Attorney General disagree with measures taken by the Commission but states these disagreements do not change the facts that the measures taken were within the authority of the Commission. The Commission agrees with the Attorney General that legislative action is required to resolve this matter and the Commission continues to pursue that course. (For previous Commission response, see Digest Footnote #1)

Auditor Comment

In an auditor comment, we stated that the auditors continue to stand by the finding based on the same criteria that was cited in the prior five audits. We noted that under the statute, by October 10th of each year money is either expended or on hand. Under common everyday usage, the term "expended" means paid out. This definition is also consistent with usage in State government. Under the plain meaning of the law, money on hand in excess of $350,000 must be remitted to the State Treasury in the time frame set forth in Section 10. The auditors do not believe the statute allows the Commission to hold for an indefinite period of time an unlimited accumulation of money that has been "set aside" or "pledged as collateral" or "committed" but not paid out.

Not only, according to the Attorney General, were the monies at issue "on hand" and not properly remitted to the State Treasurer but they were used by the Commission as security for an unauthorized line of credit. The auditors continue to believe these monies should be remitted to the State Treasury.

Furthermore, in the Commission's response to the finding last year and in response to a suggestion by the Attorney General, the Commission stated that they were going to diligently pursue legislative action to resolve this matter. The Commission has made no attempt at such legislative action since providing that response last year.

NONCOMPLIANCE WITH THE ILLINOIS PROCUREMENT CODE

The Illinois Medical District Commission (Commission) did not comply with the Illinois Procurement Code.

During the year, the Commission made two emergency purchases for legal services. One of the contracts was for legal services relating to various administrative, zoning and other legal matters, while the other contract was for legal services relating to the defense of the Chicago Technology Park Corporation (Corporation) (a component unit of the Commission), voluntarily dissolved on June 26, 2009. These emergency purchases were renewals of emergency contracts entered into the previous fiscal year.

Some of the issues noted follow:

Renewal options were not included in the fiscal year 2009 contracts

- Contracts from fiscal year 2009 did not include renewal options in succeeding year(s);

Legal services for a former component unit that was dissolved are being paid by the Commission instead of the liquidating trust

- Legal services were for the Corporation, which is no longer in existence, and according to the Commission, any liability which may arise in relation to the Corporation would presumably be paid out of the liquidating trust, which in and of itself, is not a component unit of the Commission;
- Emergency purchase affidavits were not filed with the Office of the Auditor General nor was this information posted in the Illinois Procurement Bulletin (Finding 2, pages 14-15)

We recommended that the Commission comply with the Illinois Procurement Code.

Commission agrees with the auditors

Commission officials agreed with the recommendation.

AUDITOR'S OPINION

Our auditors stated that the financial statements present fairly, in all material respects, the respective financial position of the business-type activities of the Commission, as of June 30, 2010, and the respective changes in net assets and cash flows, thereof for the year then ended.

WILLIAM G. HOLLAND
Auditor General

WGH:TLK:pp

SPECIAL ASSISTANT AUDITORS

Our special assistant auditors for this audit were E.C. Ortiz & Co., LLP.

DIGEST FOOTNOTES

#1 –Failure to remit Unexpended Proceeds from the Sale of Commission Property into the Income Fund Held in the State Treasury – Previous Commission Response

The response of the Illinois Medical District Commission ("Commission") to the finding of the Auditor General regarding unexpended funds, remains, as stated in prior responses, that the Commission did not remit unexpended proceeds from the sale of Commission property to the State Treasury because the proceeds have been expended. As the Commission has noted in prior responses to the Auditor General, $4,025,000 of the amounts that the Auditor General maintains must be deposited were expended upon the cash equity portion of bonds issued by the Illinois Finance Authority pursuant to an intergovernmental agreement between the State of Illinois, by and through its Office of Management and Budget, and the Commission. The remainder was expended as collateral for a line of credit that was used in the acquisition of parcels of land by eminent domain. Condemnation can be a protracted process. The line of credit has been used to avoid having to dismiss and refile cases, a process that would have provided sellers with the opportunity to reappraise their properties and increase their demands. The net effect of the line of credit has been to save taxpayers money in acquisitions that were authorized by the General Assembly and the Governor.

The Commission acknowledges ad understands that both the Auditor General and Attorney General disagree with measures taken by the Commission in furtherance of its legislatively-mandated purposes. These disagreements do not change the facts that the measures taken were within the authority of the Commission, they were undertaken in good faith and that, as a result of these steps, there are no unexpended funds available for deposit into the State Treasury. The Attorney General has suggested that legislative action is required to resolve this matter. The Commission agrees with the Attorney General on this point, and is now diligently pursuing that course. More specifically, the Commission is seeking the following revisions to the Illinois Medical District Act (changes in italics):

"Sec. 2.1. Grants; loans; contracts. The Commission may apply for and accept grants, loans (*including lines of credit*), or appropriations from the State of Illinois…"

"Sec 10. Disposition of money; income fund. All money received by the Commission from the sale or lease of any property, in excess of such amount expended by the Commission for authorized purposes under the Act or as may be necessary to satisfy the obligation of any revenue bond issued pursuant to Section 5, *or other instrument of credit undertaken by the Commission pursuant to Section 2.1, including obligations of collateral*, shall be paid into the State Treasury for deposit into the Medical Center Commission Income Fund…"

The Commission will fully disclose the reasons for its past actions and the bases for its requested revisions to the General Assembly. We believe that the legislature will support these revisions, and enact legislation that will resolve this matter to the satisfaction of all involved.