

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

For the Two Years Ended June 30, 2014

SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY
SPECIAL LIMITED SCOPE COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2014

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SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY
SPECIAL LIMITED SCOPE COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2014

AGENCY OFFICIALS

Executive Director

Mr. Michael Lundy

Assistant Executive Director

Mr. Joe Gasparich

Authority office is located at:

1022 Eastport Plaza Drive
Collinsville, IL 62234

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



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

Ex. Officio:
Adam Pollet
Erica Borggren

Michael J. Lundy
Executive Director

Joe Gasparich, MBA, CPA
Assistant Executive Director

MANAGEMENT ASSERTION LETTER

Honorable William G. Holland
Auditor General
State of Illinois
Iles Park Plaza
740 East Ash Street
Springfield, IL 62703-3154

January 15, 2015

Dear Mr. 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, 2014. Based on this evaluation, we assert that during the years ended June 30, 2014 and June 30, 2013, the Authority has materially complied with the assertions below.

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

Yours truly,

Southwestern Illinois Development Authority


Michael Lundy, Executive Director

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SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY
SPECIAL LIMITED SCOPE COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2014

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.

ACCOUNTANT'S REPORT

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

SUMMARY OF FINDINGS

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

SCHEDULE OF FINDINGS

<u>Item No.</u>	<u>Page</u>	<u>Description</u>
PRIOR FINDINGS NOT REPEATED		
A	7	Inadequate controls over the calculation of accrued interest

EXIT CONFERENCE

The Authority waived an exit conference in correspondence dated January 15, 2015.

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OFFICE OF THE AUDITOR GENERAL
WILLIAM G. HOLLAND

INDEPENDENT ACCOUNTANT'S REPORT ON SPECIAL LIMITED STATE COMPLIANCE
TESTING, ON INTERNAL CONTROL OVER COMPLIANCE, AND ON
SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES

Honorable William G. Holland
Auditor General
State of Illinois

Compliance

We have examined the Southwestern Illinois Development Authority's (Authority) compliance with the requirements listed below, as more fully described in the Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide) as adopted by the Auditor General for the appropriations made by the Illinois General Assembly to the Authority from the General Revenue Fund (001) and for the grant funds from the Department of Commerce and Economic Opportunity during the two years ended June 30, 2014. 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 submitted its annual certifications of debt service requirements to the Governor of Illinois as required by law.

Our special limited scope compliance examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act); and the Audit Guide as adopted by the Auditor General pursuant to the Act; and, accordingly, included examining, on a test basis, evidence about the Authority's compliance with those requirements

listed in the first paragraph of this report and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Authority's compliance with specified requirements.

Our special limited scope examination was restricted to appropriations made by the Illinois General Assembly to the Authority from General Revenue Funds and related expenditures, as well as grant funds from the Illinois Department of Commerce and Economic Opportunity during FY13 and FY14.

In our opinion, the Authority complied, in all material respects, with the compliance requirements listed in the first paragraph of this report during the two years ended June 30, 2014.

Internal Control

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with the requirements listed in the first paragraph of this report on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a requirement listed in the first paragraph of this report will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Supplementary Information for State Compliance Purposes

Our examination was conducted for the purpose of forming an opinion on compliance with the requirements listed in the first paragraph of this report. The accompanying supplementary information for the years ended June 30, 2014 and June 30, 2013 in Schedules 1 through 5 and the Report Comments Section is presented for purposes of additional analysis. We have applied certain limited procedures as prescribed by the Audit Guide as adopted by the Auditor General to the June 30, 2014 and June 30, 2013 accompanying supplementary information in Schedules 1 through 5. However, we do not express an opinion on the accompanying supplementary information.

We have not applied procedures to the June 30, 2012 accompanying supplementary information in Schedules 3 through 5 and in the Report Comments Section, and accordingly, we do not express an opinion or provide any assurance on it.

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



Bruce L. Bullard, CPA
Director of Financial and Compliance Audits

Springfield, Illinois

January 15, 2015

SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY
PRIOR FINDINGS NOT REPEATED
For the Two Years Ended June 30, 2014

A. **FINDING** (Inadequate controls over the calculation of accrued interest)

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

During the current examination, the Authority did not hold any funds in trust for the Commission. (Finding Code No. 12-1)

SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY
SPECIAL LIMITED SCOPE COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2014

SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES

SUMMARY

Supplementary Information for State Compliance Purposes presented in this section of the report includes the following:

- Fiscal Schedules and Analysis:
 - Schedule of Appropriations, Expenditures and Lapsed Balances
 - Comparative Schedule of Net Appropriations, Expenditures and Lapsed Balances
 - Schedule of State Grant Funds – Cash Basis
 - Analysis of Significant Variations in Expenditures

- Report Comments (Not Examined)

The accountant's report that covers the Supplementary Information for State Compliance Purposes presented in the Compliance Report Section states the accountants have applied certain limited procedures as prescribed by the Audit Guide as adopted by the Auditor General to the June 30, 2014 and June 30, 2013 accompanying supplementary information in Schedules 1 through 5. However, the accountants do not express an opinion on the supplementary information. The accountant's report also states that they have not applied procedures to the Report Comments Section, and accordingly, they do not express an opinion or provide any assurance on it.

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

Appropriations for Fiscal Year 2014

Fourteen Months Ended August 31, 2014

	<u>Appropriations</u>	Expenditures Through <u>06/30/14</u>	Lapse Period Expenditures <u>07/01-8/31/14</u>	Total <u>Expenditures</u>	Balances <u>Lapsed</u>
<u>Public Act 98-0050</u>					
<u>APPROPRIATED FUNDS</u>					
<u>GENERAL REVENUE FUND-001</u>					
Replenishment of a Draw on the Debt Service Reserve Fund Backing Bonds Issued on Behalf of Alton Center Business Park	\$ 652,800	\$ -	\$ -	\$ -	\$ 652,800
Replenishment of a Draw on the Debt Service Reserve Fund Backing Bonds Issued on Behalf of Laclede Steel-Illinois	1,403,219	1,402,557	-	1,402,557	662
Replenishment of a Draw on the Debt Service Reserve Fund Backing Bonds Issued on Behalf of Children's Center for Behavioral Development and Related Trustee and Legal Expenses	<u>234,530</u>	<u>227,263</u>	<u>-</u>	<u>227,263</u>	<u>7,267</u>
GRAND TOTAL	<u>\$ 2,290,549</u>	<u>\$ 1,629,820</u>	<u>\$ -</u>	<u>\$ 1,629,820</u>	<u>\$ 660,729</u>

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

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

Appropriations for Fiscal Year 2013

Fourteen Months Ended August 31, 2013

	<u>Appropriations</u>	Expenditures Through <u>06/30/13</u>	Lapse Period Expenditures <u>07/01-8/31/13</u>	Total <u>Expenditures</u>	Balances <u>Lapsed</u>
<u>Public Act 97-0731</u>					
<u>APPROPRIATED FUNDS</u>					
<u>GENERAL REVENUE FUND-001</u>					
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	\$ 367,100	\$ 341,384	\$ -	\$ 341,384	\$ 25,716
Replenishment of a Draw on the Debt Service Reserve Fund Backing Bonds Issued on Behalf of Alton Center Business Park	711,700	670,000	-	670,000	41,700
Replenishment of a Draw on the Debt Service Reserve Fund Backing Bonds Issued on Behalf of Laclede Steel-Illinois	1,354,700	1,354,529	-	1,354,529	171
Replenishment of a Draw on the Debt Service Reserve Fund Backing Bonds Issued on Behalf of Children's Center for Behavioral Development and Related Trustee and Legal Expenses	<u>417,500</u>	<u>415,871</u>	<u>-</u>	<u>415,871</u>	<u>1,629</u>
GRAND TOTAL	<u>\$ 2,851,000</u>	<u>\$ 2,781,784</u>	<u>\$ -</u>	<u>\$ 2,781,784</u>	<u>\$ 69,216</u>

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

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

For the Fiscal Years Ended June 30, 2014, 2013 and 2012

	Fiscal Year		
	2014	2013	2012
	P.A. 98-0050	P.A. 97-0731	P.A. 97-0063 P.A. 97-0642
General Revenue Fund - 001			
Appropriations	\$ 2,290,549	\$ 2,851,000	\$ 2,471,800
Expenditures			
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	\$ -	\$ 341,384	\$ 363,695
Replenishment of a Draw on the Debt Service Reserve Fund Backing Bonds Issued on Behalf of Alton Center Business Park	-	670,000	690,000
Replenishment of a Draw on the Debt Service Reserve Fund Backing Bonds Issued on Behalf of Laclede Steel - Illinois	1,402,557	1,354,529	1,406,958
Replenishment of a Draw on the Debt Service Reserve Fund Backing Bonds Issued on Behalf of Children's Center for Behavioral Development and Related Trustee and Legal Expenses	227,263	415,871	-
Total Expenditures	\$ 1,629,820	\$ 2,781,784	\$ 2,460,653
Lapsed Balances	\$ 660,729	\$ 69,216	\$ 11,147

Note: Fiscal Year 2012 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, 2014

The Authority received a \$250,000 grant from the Department of Commerce and Economic Opportunity in Fiscal Year 2008 pursuant to a grant agreement for the start up costs of the Mid-America Medical District Commission. The Authority expended the remainder of these funds during Fiscal Year 2014.

	<u>State Grant</u>
Beginning Balance at July 1, 2012	\$ 1,613
Receipts	-
Disbursements	<u>-</u>
Ending Balance at June 30, 2013	<u>\$ 1,613</u>
Beginning Balance at July 1, 2013	\$ 1,613
Receipts	-
Disbursements	(1,052)
Reconciling Item	<u>(561)</u>
Ending Balance at June 30, 2014	<u>\$ -</u>

Note: This schedule was prepared based on Authority records, which have been reconciled to bank statements.

SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY
ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES
 For the Two Years Ended June 30, 2014

The following is a summary of explanations for significant variations in expenditures. Variations between fiscal years were considered significant if greater than \$5,000 and 20%.

ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES BETWEEN FISCAL YEARS 2013 AND 2014

General Revenue Fund (001)

Replenishment of a Draw on the Debt Service Reserve Fund Backing Bonds Issued on Behalf of Waste Recovery - Illinois and Related Trustee and Legal Expenses

The decrease in expenditures was due to the bonds for Waste Recovery being paid off during FY13.

Replenishment of a Draw on the Debt Service Reserve Fund Backing Bonds Issued on Behalf of Alton Center Business Park

The decrease in expenditures was due to Alton Center Business Park being able to make payments on their bond obligations. State appropriations were no longer needed to make the payments.

Replenishment of a Draw on the Debt Service Reserve Fund Backing Bonds Issued on Behalf of Laclede Steel-Illinois

The increase in expenditures was due to the bond obligation for FY14 being more than obligation due in FY13.

Replenishment of a Draw on the Debt Service Reserve Fund Backing Bonds Issued on Behalf of Children's Center for Behavioral Development and Related Trustee and Legal Expenses

The decrease in expenditures was due to the bonds for Children's Center for Behavioral Development being paid off in FY14.

ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES BETWEEN FISCAL YEARS 2012 AND 2013

General Revenue Fund (001)

Replenishment of a Draw on the Debt Service Reserve Fund Backing Bonds Issued on Behalf of Children's Center for Behavioral Development and Related Trustee and Legal Expenses

The increase in expenditures in FY13 was due to the Authority not having expenditures during FY12 for the Children's Center for Behavioral Development and related trustee and legal expenses. The bonds for the Children's Center for Behavioral Development went into default during FY13.

SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY
REPORT COMMENTS
For the Two Years Ended June 30, 2014
(Not Examined)

Authority Functions

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

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

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

Bond Issues In Default

On August 1, 1998, the Authority issued \$2,895,000 of Series 1998 A Solid Waste Disposal Refunding Revenue Bonds on behalf of Waste Recovery-Illinois. On August 1, 2002, Waste Recovery-Illinois notified the Authority it had insufficient funds to make the current and future principal and interest payments on the bonds. During FY13 the Authority made the final payments of principal and interest.

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. Alton Business Center began to resume payments for the bonds in default during FY14.

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

SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY
REPORT COMMENTS
For the Two Years Ended June 30, 2014
(Not Examined)

On November 19, 1998, the Authority issued \$2,940,000 of Series 1998 Special Facility Refunding Revenue Bonds on behalf of the Children's Center of Behavioral Development (Company). The Company failed to make monthly loan payments due on April 1, 2011, May 1, 2011, and June 1, 2011. These bonds have entered into default status and the State began making the current and future principal and interest payments on the bond in FY13.

Obligor Required Notice of Default

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

The Authority is not requiring regular notification from Alton Center, Waste Recovery-Illinois, Children's Center of Behavioral Development and Laclede Steel Company as they are bankrupt and have no staff or owners, 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. The Authority did prepare and submit required certifications to the Governor during the examination period. The General Assembly made appropriations to the Authority in order to replenish draws on the debt service reserve fund backing bonds issued on behalf of Waste Recovery-Illinois, Alton Center Business Park, Laclede Steel Company and Children's Center of Behavioral Development.

State Grant

The authority received a \$250,000 grant from the Department of Commerce and Economic Opportunity in FY08 pursuant to a grant agreement for the start up costs of the Mid-America Medical District Commission. The authority expended the remainder of these funds during FY14.

SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY
REPORT COMMENTS
For the Two Years Ended June 30, 2014
(Not Examined)

Board Members

The Authority is governed by a board of fourteen members appointed by the Governor and the County Board chairmen of Madison, St. Clair, Clinton, and Bond Counties. At June 30, 2014, Board members included:

Robert P. Lombardi, Chairman
James Nations, Vice-Chairman
Barbara S. Johnson, Secretary
Khalil El-Amin
John Hipskind
Kevin C. Kaufhold
David A. Miller
Gregory Kuehnel
Reggie Sparks
Jim Sullivan
Kennard Tucker
David E. Willey
Erica Borggren
Joseph Gray, Designee of Erica Borggren
Adam Pollet
Edie Koch, Designee of Adam Pollet