

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

For the Two Years Ended June 30, 2016

SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY
SPECIAL LIMITED SCOPE COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2016

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SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY
SPECIAL LIMITED SCOPE COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2016

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



MANAGEMENT ASSERTION LETTER

Honorable Frank J. Mautino
Auditor General
State of Illinois
Iles Park Plaza
740 East Ash Street
Springfield, Illinois 62703-3154

November 4, 2016

Dear Mr. Mautino:

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) for appropriations made by the General Assembly to the Authority from the General Revenue Fund. 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, 2016. Based on this evaluation, we assert that during the years ended June 30, 2016, and June 30, 2015, 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 certification of debt service requirements to the Governor of Illinois as required by law.



Very truly,

Southwestern Illinois Development Authority

SIGNED ORIGINAL ON FILE

Michael Lundy, Executive Director

SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY
SPECIAL LIMITED SCOPE COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2016

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 State Compliance, on Internal Control Over Compliance, and on Supplementary Information for State Compliance Purposes does not contain scope limitations, disclaimers, or other significant non-standard language.

SUMMARY OF FINDINGS

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

EXIT CONFERENCE

The Authority waived an exit conference in correspondence dated November 1, 2016.

SPRINGFIELD OFFICE:
ILES PARK PLAZA
740 EAST ASH • 62703-3154
PHONE: 217/782-6046
FAX: 217/785-8222 • TTY: 888/261-2887
FRAUD HOTLINE: 1-855-217-1895



CHICAGO OFFICE:
MICHAEL A. BILANDIC BLDG. • SUITE 5-900
160 NORTH LASALLE • 60601-3103
PHONE: 312/814-4000
FAX: 312/814-4006
FRAUD HOTLINE: 1-855-217-1895

OFFICE OF THE AUDITOR GENERAL
FRANK J. MAUTINO

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

Honorable Frank J. Mautino
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 General Assembly to the Authority from the General Revenue Fund during the two years ended June 30, 2016. 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 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.

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, 2016.

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, 2016, and June 30, 2015, in Schedules 1 through 4, the Analysis of Operations Section, and the Report Comments Section are 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, 2016, and June 30, 2015, accompanying supplementary information in Schedules 1 through 4. However, we do not express an opinion on the accompanying supplementary information.

We have not applied procedures to the June 30, 2014, accompanying supplementary information in Schedules 3 through 4, the Analysis of Operations Section, and 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, the Authority's Board of Directors, and the Authority's management and is not intended to be and should not be used by anyone other than these specified parties.

SIGNED ORIGINAL ON FILE

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

Springfield, Illinois

November 4, 2016

SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY
SPECIAL LIMITED SCOPE COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2016

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 - Fiscal Year 2016
 - Schedule of Appropriations, Expenditures and Lapsed Balances - Fiscal Year 2015
 - Comparative Schedule of Net Appropriations, Expenditures and Lapsed Balances
 - Analysis of Significant Variations in Expenditures

- Analysis of Operations (Not Examined)
 - Alternative Financing in Lieu of Appropriations and Programs to Address Untimely Payments to Vendors (Not Examined)

- 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, 2016, and June 30, 2015, accompanying supplementary information in Schedules 1 through 4. 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 Analysis of Operations Section and 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

Expenditure Authority for Fiscal Year 2016

Fourteen Months Ended August 31, 2016

	Expenditure Authority	Expenditures Through 06/30/16	Lapse Period Expenditures 07/01-8/31/16	Total Expenditures	Balances Lapsed
<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 Laclede Steel-Illinois	\$ -	\$ -	\$ -	\$ -	\$ -
GRAND TOTAL	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Note 1: Expenditure authority, appropriations, expenditures, and lapsed balances were obtained from the State Comptroller's records as of September 30, 2016, and have been reconciled to Authority records.

Note 2: Expenditure amounts are vouchers approved for payment by the Authority and submitted to the State Comptroller for payment.

Note 3: During Fiscal Year 2016, the Authority entered into a loan agreement with the Illinois Finance Authority whereby the Illinois Finance Authority paid the debt service reserve fund payment related to the Laclede Steel-Illinois bond on behalf of the Authority. This was done because the Authority did not receive a Fiscal Year 2016 appropriation from the State of Illinois due to the Statewide budget impasse. On June 30, 2016, Public Act 099-0524 granted the Authority Fiscal Year 2017 appropriations to pay back the loan to the Illinois Finance Authority. The Analysis of Operations section of this report on page 13 includes information from Authority management about the details of this loan.

SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY
SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES
 Appropriations for Fiscal Year 2015

Fourteen Months Ended August 31, 2015

	Appropriations	Expenditures Through 06/30/15	Lapse Period Expenditures 07/01-8/31/15	Total Expenditures	Balances Lapsed
<u>Public Act 98-0681</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 Laclede Steel-Illinois	\$ 1,348,800	\$ 1,348,728	\$ -	\$ 1,348,728	\$ 72
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>1,111,600</u>	<u>1,111,600</u>	<u>-</u>	<u>1,111,600</u>	<u>-</u>
GRAND TOTAL	<u><u>\$ 2,460,400</u></u>	<u><u>\$ 2,460,328</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,460,328</u></u>	<u><u>\$ 72</u></u>

Note 1: Appropriations, expenditures, and lapsed balances were obtained from the State Comptroller's records as of August 31, 2015, and have been reconciled to the Authority's records.

Note 2: Expenditure amounts are vouchers approved for payment by the Authority and submitted to the State Comptroller for payment.

SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY
COMPARATIVE SCHEDULE OF NET APPROPRIATIONS,
EXPENDITURES AND LAPSED BALANCES
For the Fiscal Years Ended June 30, 2016, 2015 and 2014

	Fiscal Year		
	2016	2015	2014
		P.A. 98-0681	P.A. 98-0050
General Revenue Fund - 001			
Appropriations	\$ -	\$ 2,460,400	\$ 2,290,549
Expenditures			
Replenishment of a Draw on the Debt Service Reserve Fund Backing Bonds Issued on Behalf of Laclede Stee - Illinois	\$ -	\$ 1,348,728	\$ 1,402,557
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	-	1,111,600	227,263
Total Expenditures	\$ -	\$ 2,460,328	\$ 1,629,820
Lapsed Balances	\$ -	\$ 72	\$ 660,729

Note 1: Expenditure authority, appropriations, expenditures, and lapsed balances were obtained from the State Comptroller's records as of September 30, 2016, and August 31, 2015, and have been reconciled to the Authority's records.

Note 2: Expenditure amounts are vouchers approved for payment by the Authority and submitted to the State Comptroller for payment.

Note 3: During Fiscal Year 2016, the Authority entered into a loan agreement with the Illinois Finance Authority whereby the Illinois Finance Authority paid the debt service reserve fund payment related to the Laclede Steel-Illinois bond on behalf of the Authority. This was done because the Authority did not receive a Fiscal Year 2016 appropriation from the State of Illinois due to the Statewide budget impasse. On June 30, 2016, Public Act 099-0524 granted the Authority Fiscal Year 2017 appropriations to pay back the loan to the Illinois Finance Authority. The Analysis of Operations section of this report on page 13 includes information from Authority management about the details of this loan.

SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY
ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES
 For the Two Years Ended June 30, 2016

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 2015 AND 2016

General Revenue Fund (001)

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

Due to the State's budget impasse, the Authority entered into a loan agreement with the Illinois Finance Authority (IFA) to pay the Fiscal Year 2016 bond obligation. The decrease in expenditures was due to the bond obligation for Fiscal Year 2016 being paid by IFA to the trustee.

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 the Children's Center for Behavioral Development being paid off during Fiscal Year 2015.

ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES BETWEEN FISCAL YEARS 2014 AND 2015

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 Fiscal Year 2015 was due to the bonds for the Children's Center for Behavioral Development being paid off during Fiscal Year 2015.

**SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY
ALTERNATIVE FINANCING IN LIEU OF APPROPRIATIONS AND
PROGRAMS TO ADDRESS UNTIMELY PAYMENTS TO VENDORS
(NOT EXAMINED)**

For the Year Ended June 30, 2016

Transactions Involving the Illinois Finance Authority

At the direction of the Governor's Office, the Authority entered into a loan agreement with the Illinois Finance Authority (IFA) on July 29, 2015, to pay the State's moral obligation for the debt service reserve fund backing a bond issued on behalf of Laclede Steel – Illinois. The loan agreement approved a loan to replenish the debt service reserve fund of up to \$1.4 million. Under the terms of the agreement between the Authority and IFA, the trustee would be paid 100% of the amount due by IFA at the time due. Then, when an appropriation was granted by the State of Illinois, the Authority would repay the amount paid to the trustee and any fees incurred by IFA in processing the loan. On June 30, 2016, the State of Illinois passed Public Act 099-0524, which granted the Authority Fiscal Year 2017 appropriations to repay the loan and IFA's fees.

Transactions Involving the Vendor Payment Program and Vendor Support Initiative Program

None of the parties involved with the payment of the State's moral obligation for the debt service reserve fund participated in the Vendor Payment Program (VPP) or the Vendor Support Initiative Program (VSI) during Fiscal Year 2015 and Fiscal Year 2016. The testing of the Authority's vendors was outside the scope of this special limited scope compliance examination.

SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY
REPORT COMMENTS
(NOT EXAMINED)

For the Two Years Ended June 30, 2016

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 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.

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 for 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 Fiscal Year 2013. During Fiscal Year 2015, the Authority made the final payments of principal and interest.

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.

SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY
REPORT COMMENTS
(NOT EXAMINED)

For the Two Years Ended June 30, 2016

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.

The Authority is not requiring regular notification from Children's Center for 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's 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 Authority contacts the trustee of each defaulted bond issue to determine the payment necessary to meet each payment. The Governor will then submit the amounts to the General Assembly in order for the Authority to be appropriated monies for such purposes.

In Fiscal Year 2015, the General Assembly appropriated \$2,460,400 to the Authority in order to pay for the replenishment on the draw on the debt service reserve fund backing bond issued on behalf of Laclede Steel and to pay off the bonds for the Children's Center for Behavioral Development – Illinois. In addition, the Authority may have also used those appropriations to pay the related trustee fees for Laclede Steel – Illinois bonds.

At the direction of the Governor's Office, the Authority entered into a loan agreement with the Illinois Finance Authority (IFA) on July 29, 2015, to pay the State's moral obligation for the debt service reserve fund backing a bond issued on behalf of Laclede Steel – Illinois. The loan agreement approved a loan to replenish the debt service reserve fund of up to \$1.4 million.

The Authority relies on accuracy of information as presented by trustees when trustees request the Authority either pay principal or interest or replenish the debt service fund.

SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY
REPORT COMMENTS
(NOT EXAMINED)

For the Two Years Ended June 30, 2016

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, 2016, Board members included:

James S. Nations, Chairman

Reggie Sparks, Vice Chairman

Barbara S. Johnson, Secretary

Khalil El-Amin

John Hipskind

Kevin C. Kaufhold

David A. Miller

Gregory Kuehnel

Thomas Hoechst

Jim Sullivan

Kennard Tucker

David E. Willey

Joseph Gray, Designee of Illinois Department of Transportation

Vacant, Designee of Department of Commerce and Economic Opportunity