

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

For the Two Years Ended June 30, 2018

SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY  
SPECIAL LIMITED SCOPE COMPLIANCE EXAMINATION  
For the Two Years Ended June 30, 2018

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SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY  
SPECIAL LIMITED SCOPE COMPLIANCE EXAMINATION  
For the Two Years Ended June 30, 2018

**AUTHORITY OFFICIALS**

Executive Director

Mr. Michael Lundy

Assistant Executive Director

Mr. Joe Gasparich

The Authority's office is located at:

1022 Eastport Plaza Drive  
Collinsville, Illinois 62234

**Members of the Board:**  
James Nations, Chair  
Rickie Thomas  
Greg Kuehnel  
Kevin Jemison  
David A. Miller  
James S. Nations  
Kevin Kaufhold  
Reggie Sparks  
Jim Sullivan  
David Willey  
Kennard Tucker  
Mark Rabe



**Ex. Officio:**  
Erin Guthrie  
Omar Osman

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

**Executive Director:**  
Michael J. Lundy

**Assistant Executive Director**  
Joe Gasparich, MBA, CPA

MANAGEMENT ASSERTION LETTER

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

June 24, 2019

Auditor General 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, 2018. Based on this evaluation, we assert that during the years ended June 30, 2017, and June 30, 2018, 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.

Yours truly,

Southwestern Illinois Development Authority

**SIGNED ORIGINAL ON FILE**

Michael J. Lundy, Executive Director

SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY  
SPECIAL LIMITED SCOPE COMPLIANCE EXAMINATION  
For the Two Years Ended June 30, 2018

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

**SCHEDULE OF FINDINGS**

<u>Item No.</u>	<u>Page</u>	<u>Description</u>	<u>Finding Type</u>
FINDINGS (STATE COMPLIANCE)			
2018-001	7	Improper Use of Expenditure Authority	Significant Deficiency and Noncompliance

**EXIT CONFERENCE**

The Authority waived an exit conference in a correspondence from Teri Rumsey, Administrative Assistant, on June 5, 2019. The response to the recommendation was provided by Michael Lundy, Executive Director, in a correspondence dated June 24, 2019.

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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 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 appropriations made by the General Assembly from the General Revenue Fund during the two years ended June 30, 2018. The management of the Southwestern Illinois Development Authority is responsible for compliance with these requirements. Our responsibility is to express an opinion on the Southwestern Illinois Development Authority's compliance based on our examination.

- A. The Southwestern Illinois Development 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 Southwestern Illinois Development 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 Southwestern Illinois Development 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 (the Audit Guide). Those standards, the Act, and the Audit Guide require that we plan and perform the examination to obtain reasonable assurance about whether the Southwestern Illinois Development Authority complied, in all material respects, with the specified requirements listed above. An examination involves performing procedures to obtain evidence about whether the Southwestern Illinois Development Authority complied with the specified requirements listed above. The nature, timing, and extent of the procedures selected depend on our judgement, including an assessment of the risks of material noncompliance, whether due to fraud or error.

We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion. Our examination does not provide a legal determination on the Southwestern Illinois Development Authority's compliance with specified requirements.

In our opinion, the Southwestern Illinois Development 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, 2018. However, the results of our procedures disclosed instances of noncompliance with the requirements, which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of findings as item 2018-001.

The Southwestern Illinois Development Authority's response to the finding identified in our examination is described in the accompanying schedule of findings. The Southwestern Illinois Development Authority's response was not subjected to the procedures applied in the compliance examination and, accordingly, we express no opinion on the response.

The purpose of this report on compliance is solely to describe the scope of our testing and the results of that testing in accordance with the requirements of the Audit Guide issued by the Illinois Office of the Auditor General. Accordingly, this report is not suitable for any other purpose.

### **Internal Control**

Management of the Southwestern Illinois Development 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 Southwestern Illinois Development 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 Southwestern Illinois Development Authority's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Southwestern Illinois Development 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 and, therefore, material weaknesses or significant deficiencies may exist that were have not been

identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings as item 2018-001 that we consider to be significant deficiencies.

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

The Southwestern Illinois Development Authority's response to the internal control finding identified in our examination is described in the accompanying schedule of findings. The Southwestern Illinois Development Authority's response was not subjected to the procedures applied in the compliance examination and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Audit Guide, issued by the Illinois Office of the Auditor General. Accordingly, this report is not suitable for any other purpose.

#### **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, 2018, and June 30, 2017, in Schedules 1 through 3 and the Analysis of Operations 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, 2018, and June 30, 2017, accompanying supplementary information in Schedules 1 through 3. However, we do not express an opinion on the accompanying supplementary information.

We have not applied procedures to the June 30, 2016 accompanying supplementary information in Schedule 3 and in the Analysis of Operations Section and, accordingly, we do not express an opinion or provide any assurance on it.

**SIGNED ORIGINAL ON FILE**

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JANE CLARK, CPA  
Director of Financial and Compliance Audits

Springfield, Illinois  
June 24, 2019



SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY  
SPECIAL LIMITED SCOPE COMPLIANCE EXAMINATION  
**SCHEDULE OF FINDINGS**  
For the Two Years Ended June 30, 2018

2018-001. **FINDING** (Improper Use of Expenditure Authority)

The Southwestern Illinois Development Authority (Authority) did not ensure appropriations received from the General Assembly were utilized for the purposes intended.

We noted the Authority erroneously authorized the expenditure of \$1,404,292 for the purpose of loan repayment from its appropriation for debt service reserve replenishment. We also noted the Authority erroneously authorized the expenditure of \$1,404,125 for the purpose of debt service reserve replenishment from its appropriation for loan repayment.

In addition, we noted the Authority authorized its bond trustee to pay additional funds, totaling \$219, beyond what was originally owed to the Illinois Finance Authority in the course of its repayment of the loan received during Fiscal Year 2016.

Public Act 99-0524 (Article 214, Sections 30-35) designated the expenditure authority from which the Authority was authorized to expend its Fiscal Year 2017 appropriations as follows:

- The sum of \$1,404,600, or so much thereof as may be necessary, was appropriated from the General Revenue Fund to the Authority for the purpose of repaying a loan from the Illinois Finance Authority for debt service paid in Fiscal Year 2016 on Authority bonds issued on behalf of Laclede Steel-Illinois.
- The sum of \$1,427,800, or so much thereof as may be necessary, was appropriated from the General Revenue Fund to the Authority for the replenishment of a draw on the debt service reserve fund backing bonds issued on behalf of Laclede Steel-Illinois.

Authority personnel indicated the wrong appropriation lines were used due to oversight and miscommunication with the Office of the State Comptroller.

Appropriations made by the General Assembly specify the purposes for which the public funds of the State may be expended. Expending money for costs other than those designated by the General Assembly is a violation of the appropriation process and limits legislative control. (Finding Code No. 2018-001)

**RECOMMENDATION**

We recommend the Authority ensure appropriations received from the General Assembly are used for the indicated purposes.

SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY  
SPECIAL LIMITED SCOPE COMPLIANCE EXAMINATION  
**SCHEDULE OF FINDINGS**

For the Two Years Ended June 30, 2018

2018-001. **FINDING** (Improper Use of Expenditure Authority) – Continued

**AUTHORITY RESPONSE**

We have reviewed your draft Special Limited Scope Compliance Examination for the two years ended June 30, 2018. With respect specifically to the finding, we believe the explanation does not effectively portray the scenario in which the finding is attributed. Please consider the following as context for this unique situation.

The matter at issue was an unusual one-time transaction initiated by staff of the Governor's Office due to the two-year budget crisis. When completing the voucher for payment, SWIDA had no way of knowing or even surmising that funds should come from a different state account requiring a different code to be used. Staff were unaware that a new code would be required instead of the code that we have been using for these bond transactions for some 12 years.

Like in past years, no appropriations flowed through SWIDA but went directly to the bond trustee who disbursed the funds appropriately to the correct party, in this case the Illinois Finance Authority. Again, we had no way of knowing that this appropriation would require a different code establishing the payment from a different state account. In the end, all funds appropriated by the General Assembly were used for the intended purpose and the correct entity got paid. SWIDA in no way received any benefits from this transaction.

**ACCOUNTANT'S COMMENT**

The Authority's response indicates it did not recognize the inherent risk arising from the change in how its appropriation authority worked from the preceding 12 fiscal years in Fiscal Year 2017. Authority management was responsible for responding to this new risk by undertaking such actions necessary, like engaging in communication with the Comptroller's Office to understand how the changes in its appropriations impacted the Authority's voucher processing function, to ensure it correctly charged its transactions against the proper appropriation. Additionally, the statement that "all funds appropriated by the General Assembly were used for the intended purpose and the correct entity got paid" is not entirely accurate as we questioned the extra \$219 paid to the Illinois Finance Authority by the bond trustee as authorized by the Authority.

SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY  
SPECIAL LIMITED SCOPE COMPLIANCE EXAMINATION  
For the Two Years Ended June 30, 2018

**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 2018
  - Schedule of Appropriations, Expenditures, and Lapsed Balances – Fiscal Year 2017
  - Comparative Schedule of Net Appropriations, Expenditures, and Lapsed Balances
  
- Analysis of Operations (Not Examined):
  - Analysis of Significant Variations in Expenditures (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, 2018, and June 30, 2017, accompanying supplementary information in Schedules 1 through 3. 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 2018

Fifteen Months Ended September 30, 2018

Public Act 100-0021	Expenditure Authority	Expenditures Through 6/30/18	Lapse Period Expenditures 7/01-9/30/18	Total Expenditures	Balances Lapsed
<b>APPROPRIATED FUNDS</b>					
General Revenue Fund - 001					
Replenishment of a Draw on the Debt Service Reserve Fund Backing Bonds Issued on Behalf of Laclede Steel-Illinois	\$ 1,361,500	\$ 1,358,735	\$ -	\$ 1,358,735	\$ 2,765
<b>GRAND TOTAL</b>	<b>\$ 1,361,500</b>	<b>\$ 1,358,735</b>	<b>\$ -</b>	<b>\$ 1,358,735</b>	<b>\$ 2,765</b>

Note 1: Expenditure authority, appropriations, expenditures, and lapsed balances were obtained from the State Comptroller's records as of September 30, 2018, 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  
**SCHEDULE OF APPROPRIATIONS, EXPENDITURES, AND LAPSED BALANCES**  
 Expenditure Authority for Fiscal Year 2017

Fifteen Months Ended September 30, 2017

	Expenditures		Lapse Period		Total Expenditures	Balances Lapsed
	Through 6/30/17	7/01-9/30/17	Expenditures	Expenditures		
Public Act 99-0524						
<b>APPROPRIATED FUNDS</b>						
General Revenue Fund - 001						
Repayment of a Loan from the Illinois Finance Authority for Debt Service Paid in Fiscal Year 2016 on Bonds Issued on Behalf of Laclede Steel-Illinois	\$ 1,404,600	\$ 1,404,125	\$ -	\$ -	\$ 1,404,125	\$ 475
Replenishment of a Draw on the Debt Service Reserve Fund Backing Bonds Issued on Behalf of Laclede Steel-Illinois	1,427,800	1,427,800	-	-	1,427,800	-
<b>GRAND TOTAL</b>	<b>\$ 2,832,400</b>	<b>\$ 2,831,925</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,831,925</b>	<b>\$ 475</b>

Note 1: Expenditure authority, appropriations, expenditures, and lapsed balances were obtained from the State Comptroller's records as of September 30, 2017, 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 14 includes information from Authority management about the details and subsequent repayment of this loan.

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

For the Fiscal Years Ended June 30,

	Fiscal Year		
	2018	2017	2016
<b>General Revenue Fund - 001</b>	P.A. 100-0021	P.A. 99-0524	
Appropriations	\$ 1,361,500	\$ 2,832,400	\$ -
<u>Expenditures</u>			
Repayment of a Loan from the Illinois Finance Authority for Debt Service Paid in Fiscal Year 2016 on Bonds Issued on Behalf of Laclede Steel-Illinois	\$ -	\$ 1,404,125	\$ -
Replenishment of a Draw on the Debt Service Reserve Fund Backing Bonds Issued on Behalf of Laclede Steel-Illinois	1,358,735	1,427,800	-
Total Expenditures	\$ 1,358,735	\$ 2,831,925	\$ -
Lapsed Balances	\$ 2,765	\$ 475	\$ -

Note 1: Expenditure authority, appropriations, expenditures, and lapsed balances were obtained from the State Comptroller's records as of September 30, 2018, and September 30, 2017, 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 14 includes information from Authority management about the details and subsequent repayment of this loan.

SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY  
ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES  
(NOT EXAMINED)

For the Two Years Ended June 30, 2018

**ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES BETWEEN FISCAL YEARS 2017 AND 2018**

**General Revenue Fund (001)**

Repayment of a Loan from the Illinois Finance Authority for Debt Service Paid in Fiscal Year 2016 on Bonds Issued on Behalf of Laclede Steel-Illinois

Due to the State's budget impasse during Fiscal Year 2016, the Authority did not receive an appropriation to pay the Fiscal Year 2016 bond obligation. As a result, the Illinois Finance Authority (IFA) paid the Fiscal Year 2016 bond obligation by way of a loan agreement with the Authority. The decrease in expenditures was due to the Authority repaying the loan for the Fiscal Year 2016 bond obligation payment made by the IFA during Fiscal Year 2017. No such activity was noted during Fiscal Year 2018.

**ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES BETWEEN FISCAL YEARS 2016 AND 2017**

**General Revenue Fund (001)**

Repayment of a Loan from the Illinois Finance Authority for Debt Service Paid in Fiscal Year 2016 on Bonds Issued on Behalf of Laclede Steel-Illinois

Due to the State's budget impasse during Fiscal Year 2016, the Authority did not receive an appropriation to pay the Fiscal Year 2016 bond obligation. As a result, the Illinois Finance Authority (IFA) paid the Fiscal Year 2016 bond obligation by way of a loan agreement with the Authority. The increase in expenditures was due to the Authority repaying the loan for the Fiscal Year 2016 bond obligation payment made by the IFA during Fiscal Year 2017.

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 during Fiscal Year 2016, the Authority did not receive an appropriation to pay the Fiscal Year 2016 bond obligation. As a result, the Illinois Finance Authority (IFA) paid the Fiscal Year 2016 bond obligation by way of a loan agreement with the Authority. The increase in expenditures during Fiscal Year 2017 was due to the Authority receiving State appropriations to pay the Fiscal Year 2017 bond obligation.

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

For the Two Years Ended June 30, 2018

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 \$1,391,800. 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. Later, 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. In August 2016, the loan to the IFA was repaid in the amount of \$1,396,292.40. The repayment also included applicable fees the IFA had incurred due to the loan.

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 2017 and Fiscal Year 2018. 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, 2018

**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 - Illinois 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 - Illinois, 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 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 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 Laclede Steel - Illinois 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.

SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY  
**REPORT COMMENTS**  
**(NOT EXAMINED)**  
For the Two Years Ended June 30, 2018

**State Moral Obligation**

The Southwestern Illinois Development Act (70 ILCS 520/7(f)) states if the Authority determines 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 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 2016, the Authority did not receive appropriations from the State due to the budget impasse. At the direction of the Office of the Governor, the Authority was approved up to a “loan” amount of \$1.4 million from the Illinois Finance Authority (IFA) in order to pay for the replenishment on the draw on the debt service reserve fund backing bond issued on behalf of Laclede Steel – Illinois. In addition, the Authority may have also used those funds to pay the related trustee fees for Laclede Steel – Illinois.

In Fiscal Year 2017, the General Assembly appropriated \$2,832,400 to the Authority in order to repay a loan from the Illinois Finance Authority during Fiscal Year 2016 due to the budget impasse and to pay for the replenishment of the draw on the debt service reserve fund backing bond issued on behalf of Laclede Steel – Illinois. In addition, the Authority may have also used those funds to pay the related trustee fees for Laclede Steel – Illinois bonds.

In Fiscal Year 2018, the General Assembly appropriated \$1,361,500 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 – Illinois. In addition, the Authority may have also used those appropriations to pay the related trustee fees for Laclede Steel – Illinois bonds.

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.

**Board Members**

The Authority is governed by a board of fourteen members appointed by the Governor and the county board chairs of Madison, St. Clair, Clinton, and Bond counties. At June 30, 2018, Board members included:

James S. Nations, Chairman  
Reggie Sparks, Vice Chairman  
Erika Kennett, Secretary – Designee of Department of Commerce & Economic Opportunity  
Kevin C. Kaufhold, Treasurer  
Rickie Thomas  
David A. Miller

SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY  
**REPORT COMMENTS**  
**(NOT EXAMINED)**  
For the Two Years Ended June 30, 2018

Gregory Kuehnel  
Mark Rabe  
Jim Sullivan  
Kennard Tucker  
David E. Willey  
Kevin Jemison – Designee of Department of Transportation  
Vacant  
Vacant