

Lakes Region Sanitary District Ingleside, Illinois

Annual Financial Report
For the Fiscal Year Ended April 30, 2013

Prepared by:
Lakes Region Sanitary District
Ingleside, IL

Lakes Region Sanitary District

Fiscal Year Ended April 30, 2013

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Independent Auditor's Report

To the Honorable President and
Members of the Board of Trustees
Lakes Region Sanitary District
Ingleside, Illinois

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Lakes Region Sanitary District, Illinois, as of and for the year ended April 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Lakes Region Sanitary District, Illinois, as of April 30, 2013, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, as of May 1, 2012, the District adopted the reporting and disclosure requirements of Governmental Accounting Standards Board No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net position* and Governmental Accounting Standards Board No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 3 – 10), schedule of funding progress (page 30), budgetary schedule (page 31) and related note (page 31) be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

McGladrey LLP

Chicago, Illinois
August 8, 2013

Required Supplementary Information

Management Discussion and Analysis

Lakes Region Sanitary District

Management's Discussion and Analysis For the Fiscal Year Ended April 30, 2013

The discussion and analysis of Lakes Region Sanitary District's (the District) financial performance provides an overall review of the District's financial activities for the fiscal year ended April 30, 2013. The management of the District encourages readers to consider the information presented herein in conjunction with the financial statements to enhance their understanding of the District's financial performance.

Governmental Accounting Standards Board Pronouncements

Refer to the Notes to the Basic Financial Statements; Note 1, Summary of Significant Accounting Policies; paragraph (e) *New Accounting Pronouncements* for further discussion.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the fiscal year by \$19,630,568. Of this amount, \$3,218,264 may be used to meet the District's ongoing obligations to citizens and creditors, with the remainder representing the amount of net investment in capital assets.
- In total, net position increased by \$565,507. This represents an increase of 3.0% in net position from fiscal year 2012. This is primarily the result of increased activity from contributed capital assets; higher Program Revenues due to increased permit activity and the full year affect of the user rate increase implemented late in FY 2012.
- Property tax revenue was \$1,225,885 or 35.0% of all revenues. This represents a decrease of 8.6% from fiscal year 2012; due to tax base shrinkage, offset by allowable tax rate increase.
- Connection and user fees were \$1,614,810 or 46.2% of all revenues. This represents an increase of 63.2% from fiscal year 2012, due to increased permit issuances for the South Trunk Sewer area and the aforementioned user rate increase.
- At the end of the fiscal year, the District's governmental funds reported combined ending fund balances of \$2,834,404. This represents an increase of 7.6% from fiscal year 2012.
- At the end of the fiscal year, the fund balance for the general fund was all unassigned in the amount of \$1,646,144, or 60.1% of total general fund expenditures for the fiscal year. The general fund balance remains as a high percentage of expenditures due to the receipt, in prior fiscal years, of connection fee prepayments from developers in the South Trunk Sewer service area that increased cash holdings, but is required to be reported as unearned revenue (a liability) until earned at the time of sewer connection permit issuance; although lower than prior years due to the start of principal repayments now occurring on all debts issues.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The basic financial statements are comprised of three components:

- Government-wide financial statements.
- Fund financial statements.
- Notes to the financial statements.

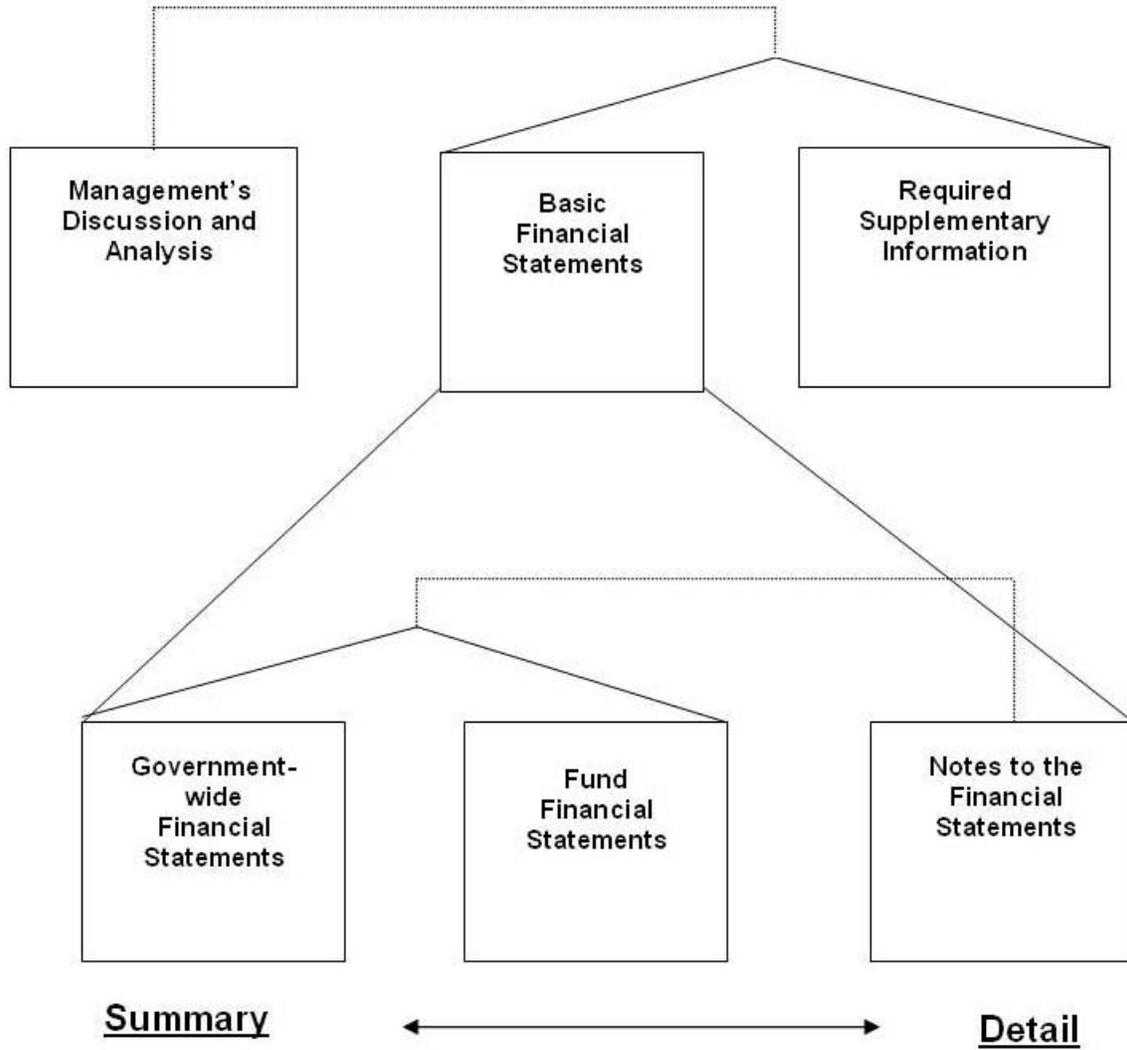
Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Lakes Region Sanitary District

Management's Discussion and Analysis
For the Fiscal Year Ended April 30, 2013

Figure A-1

Organization of Lakes Region Sanitary District's Annual Financial Report



This report also contains other supplementary information in addition to the basic financial statements.

Lakes Region Sanitary District

Management's Discussion and Analysis For the Fiscal Year Ended April 30, 2013

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances in a manner similar to a private-sector business.

The Statement of Net Position presents information on all of the District's assets, deferred inflows, liabilities and deferred outflows with the net difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Activities presents information showing how the District's net position changed during the fiscal year being reported. All changes in net position are reported when the criteria for each reporting category is satisfied.

The government-wide financial statements present the District functions that are principally supported by taxes and intergovernmental revenues (governmental activities). The District has no business-type activities; that is, functions that are intended to recover all or a significant portion of their costs through user fees and charges. The District's governmental activities provide sanitary sewer services.

Fund Financial Statements

A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the District funds are considered governmental funds (the District maintains no proprietary funds or fiduciary funds).

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

For fiscal year 2013, the District maintained three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and change in fund balances for the General Fund and Repair and Replacement Fund with data from the other governmental fund presented as Nonmajor Governmental Fund.

The District adopts an annual budget for each of the funds listed above. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with budget.

Lakes Region Sanitary District

Management's Discussion and Analysis For the Fiscal Year Ended April 30, 2013

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's progress in funding its obligation to provide pension benefits to its employees.

Government-Wide Financial Analysis

Net Position (Table 1).

At the end of the fiscal year, total net position was \$19,630,568. This represents an increase of 3.0% from fiscal year 2012.

Table 1 Condensed Statement of Net Position At April 30, (in dollars)	2013	2012
Current Assets	\$ 6,664,782	\$ 7,008,416
Noncurrent Assets		
Capital Assets	29,970,092	30,395,925
Total Assets	<u>\$ 36,634,874</u>	<u>\$ 37,404,341</u>
Current Liabilities	\$ 4,313,888	\$ 4,774,620
Long Term Liabilities, Net of Current Maturities	12,604,505	13,471,874
Total Liabilities	<u>\$ 16,918,393</u>	<u>\$ 18,246,494</u>
Deferred Inflows of Resources	<u>\$ 85,913</u>	<u>\$ 92,786</u>
Net Position:		
Net Investment in Capital Assets	\$ 16,412,304	\$ 15,991,546
Unrestricted	3,218,264	3,073,515
Total Net Position	<u>\$ 19,630,568</u>	<u>\$ 19,065,061</u>

Lakes Region Sanitary District

**Management's Discussion and Analysis
For the Fiscal Year Ended April 30, 2013**

Changes in Net Position (Table 2).

The District's total revenues were \$3,498,770, which includes:

- \$1,225,885 from property taxes, 35.0% of the total. This represents a decrease of 8.6% from fiscal year 2012.
- \$1,614,810 from fees charged for services, 46.2% of the total. This represents an increase of 63.2% from fiscal year 2012.
- \$131,136 from miscellaneous sources such as personal property replacement tax, interest, penalty fees and debt issuance premium. This represents an increase of 19.5% from fiscal year 2012.

The total cost of all programs and services was \$2,933,263. This represents an increase of 4.3% from fiscal year 2012. The District's expenses are predominantly related to providing sanitary sewer services to the residents of the District (salary and benefits, administration, building maintenance and materials purchase costs, etc. - including sewer construction projects).

Total revenues exceeded expenses, increasing net position by \$565,507.

Table 2		
Condensed Statement of Activities		
For the Fiscal Year Ended April 30,		
(in dollars)		
	2013	2012
Revenues:		
Program Revenues:		
Charges for Services	\$ 1,614,810	\$ 989,164
Contributed Capital Assets & Grants	526,939	-
General Revenues:		
Taxes	1,268,901	1,381,931
Other	88,120	69,117
Total Revenues	3,498,770	2,440,212
Expenses:		
General Government	2,933,263	2,811,873
Increase (Decrease) in Net Position	565,507	(371,661)
Net Position - Beginning, as restated	19,065,061	19,436,722
Net Position - Ending	\$ 19,630,568	\$ 19,065,061

Lakes Region Sanitary District

Management's Discussion and Analysis For the Fiscal Year Ended April 30, 2013

Financial Analysis of the District's Funds

As the District completed the fiscal year, its governmental funds reported combined fund balances of \$2,834,404, an increase of 7.6% from fiscal year 2012. Revenues and other financing sources for the District's governmental activities were \$3,026,945, an increase of 25.1%, primarily due to full year effect of the user rate increase started late in fiscal year 2012. Total expenditures were \$2,825,628, an increase of 5.1%.

For the fiscal year, the General Fund experienced an operating excess, after other financing uses, of \$93,972. Factors that attributed to the excess are:

- Expenditures related to:
 - Current fiscal year expenditures related to the upgrade to the Volo Village Road lift station to add a control system to alleviate downstream sewer odor and a grinder to shred non-disposable materials to prevent blockages and pump damage; of \$158,211.
 - Current fiscal year expenditures related to the replacement of the lift station monitoring system radio transmitters to comply with a Federal Communication Commission mandate; of \$85,336.
 - Sewer system repairs discovered during routine inspections; of \$87,954.
- Offset by increased revenues from the aforementioned user rate increase.

General Fund Budgetary Highlights

While the District's budget for the General Fund anticipated that expenditures would be an operating deficit of \$85,200 against revenues before other financing uses, the actual result for the fiscal year was an operating excess of \$287,568.

Expenditures were lower than anticipated due to:

- Several projects in the Operations and Maintenance department requiring fewer resources.
- Other projects cancelled or delayed.
- Control of all categories of expenditures where possible.
- An amount budgeted for contingencies that did not require utilization.

Revenues were higher than anticipated due to:

- Greater than anticipated permit activity favorably affecting Connection and related Fees.
- Higher than anticipated User Fees due to a rate increase implemented late in the year.
- Higher than budgeted Penalty Fees, which the District does not budget as a matter of policy.

Lakes Region Sanitary District

Management's Discussion and Analysis
For the Fiscal Year Ended April 30, 2013

Capital Asset and Debt Administration

Capital Assets (Table 3)

At the end of fiscal year 2013, the District had invested \$41,217,912 (before accumulated depreciation of \$11,247,820) in a broad range of capital assets, including sewers, lift stations, buildings and improvements, equipment, furniture and land. (More detailed information about capital assets can be found in Note 5 to the financial statements.)

Depreciation expense for the fiscal year was \$1,196,885.

Net additions to capital assets amounted to \$771,052. This includes: amounts recorded as additions to construction in process related to ongoing lift station upgrades, including accruals for invoices not received as of the end of the fiscal year; amounts recorded related to completed projects transferred from construction in process to the respective asset category; and contributed capital assets.

Table 3 Condensed Schedule of Capital Assets At April 30, (in dollars)	2013	2012
Construction in Process	\$ 241,175	\$ 282,485
Sewers and Lift Stations	38,701,078	37,888,717
Land, Buildings and Improvements	2,080,903	2,080,903
Office Equipment	21,197	21,197
Maintenance Equipment and Vehicles	173,559	173,559
Investment in Capital Assets, Cost	41,217,912	40,446,861
Less: Accumulated Depreciation	11,247,820	10,050,935
Investment in Capital Assets, Net	<u>\$ 29,970,092</u>	<u>\$ 30,395,926</u>

Long Term Debt

The long term debt carried by the District is related to the construction of capital projects. The IEPA loans are related to the construction of expansions to the District's system of sewers. The general obligation debt certificates are related to the construction of the District's headquarters facility and the South Trunk Sewer.

See Note 6 for details regarding the terms and repayment of the obligations.

Lakes Region Sanitary District

Management's Discussion and Analysis For the Fiscal Year Ended April 30, 2013

Factors Bearing on the District's Future

At April 30, 2013, the District was aware of the following existing circumstances that could significantly affect its financial health in the future.

- Sewer repairs are continually discovered as a result of the District's ongoing routine inspection of the sewer system.
- A rate increase implemented in fiscal year 2012 will have a positive impact on ongoing financial results; striving to maintain balanced budgeting, with any fiscal year excess used to increase reserves for potential unknown, undiscovered repairs.
- A program for annual cost of living increases to the District's sewer user charge rate was passed to begin with fiscal year 2015.

Requests for Information

This financial report is designed to provide the District's citizens, taxpayers, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact:

Lakes Region Sanitary District
25700 West Old Grand Avenue
Ingleside, IL 60041-8524
847-973-8940

Basic Financial Statements

Government – Wide Financial Statements

Lakes Region Sanitary District

**Statement of Net Position
At April 30, 2013**

	Governmental Activities
Assets	
Current Assets	
Cash and Cash Equivalents	\$ 5,098,542
Receivables:	
Property Taxes	1,232,442
Billed Sewer Charges	87,230
Unbilled Sewer Charges	237,948
Interest and Other	8,620
Total Current Assets	<u>6,664,782</u>
Noncurrent Assets	
Capital Assets Not Being Depreciated	404,050
Capital Assets Being Depreciated, Net	29,566,042
Total Noncurrent Assets	<u>29,970,092</u>
Total Assets	<u>36,634,874</u>
Liabilities	
Current Liabilities	
Accounts Payable	91,026
Accrued Interest Payable	196,566
Accrued Payroll	14,057
Compensated Absences	36,144
Construction Retainage Payable	13,188
Due To Other Governments	324,654
Unearned Revenue	2,457,537
Developer Escrow	313,347
General Obligation Debt	560,000
IEPA Loans	307,369
Total Current Liabilities	<u>4,313,888</u>
Long Term Liabilities, Net of Current Maturities	
General Obligation Debt	8,515,000
IEPA Loans	4,089,505
Total Long Term Liabilities, Net of Current Maturities	<u>12,604,505</u>
Total Liabilities	<u>16,918,393</u>
Deferred Inflows of Resources	
Unamortized Debt Issuance Premium	85,913
Total Deferred Inflows of Resources	<u>85,913</u>
Net Position	
Net Investment in Capital Assets	16,412,304
Unrestricted	3,218,264
Total Net Position	<u>\$ 19,630,568</u>

See Notes to the Basic Financial Statements.

Lakes Region Sanitary District

**Statement of Activities
For the Fiscal Year Ended April 30, 2013**

Functions/Programs	Expenses	Program Revenue		Net (Expense)/ Revenue and Changes in Net Position
		Charges for Services	Contributed Capital Assets & Grants	
Governmental Activities:				
General Government	\$ 2,933,263	\$ 1,614,810	\$ 526,939	\$ (791,514)
General Revenues:				
Property Taxes				1,225,885
Personal Property Replacement Taxes				43,016
Interest				7,663
Other Fees				73,584
Amortization of Debt Issuance Premium				6,873
Total General Revenues				<u>1,357,021</u>
Change in Net Position				565,507
Net Position:				
May 1, 2012, as restated (See Note 1)				19,065,061
April 30, 2013				<u>\$ 19,630,568</u>

See Notes to the Basic Financial Statements.

Fund Financial Statements

Lakes Region Sanitary District

**Balance Sheet
Governmental Funds
At April 30, 2013**

	General Fund	Repair and Replacement Fund	Nonmajor Governmental Fund	Total Governmental Funds
Assets				
Cash and Cash Equivalents	\$ 3,849,668	\$ 805,816	\$ 443,058	\$ 5,098,542
Receivables:				
Property Taxes	1,232,442	-	-	1,232,442
Billed Sewer Charges	87,230	-	-	87,230
Unbilled Sewer Charges	237,948	-	-	237,948
Interest and Other	8,620	-	-	8,620
Total Assets	\$ 5,415,908	\$ 805,816	\$ 443,058	\$ 6,664,782
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$ 86,882	\$ -	\$ 4,144	\$ 91,026
Accrued Payroll	14,057	-	-	14,057
Construction Retainage Payable	13,188	-	-	13,188
Due To Other Governments	324,654	-	-	324,654
Unearned Property Tax Revenue	616,569	-	-	616,569
Unearned Revenue	2,457,537	-	-	2,457,537
Developer Escrow	256,877	-	56,470	313,347
Total Liabilities	3,769,764	-	60,614	3,830,378
Fund Balances:				
Unassigned, Reported in:				
General Fund	1,646,144	-	-	1,646,144
Assigned, Reported in:				
Capital Projects Funds	-	805,816	382,444	1,188,260
Total Fund Balances	1,646,144	805,816	382,444	2,834,404
Total Liabilities and Fund Balances	\$ 5,415,908	\$ 805,816	\$ 443,058	\$ 6,664,782

See Notes to the Basic Financial Statements.

Lakes Region Sanitary District

**Reconciliation of the Governmental Funds
Balance Sheet to the Statement of Net Position
At April 30, 2013**

Total Fund Balances - Governmental Funds	\$ 2,834,404
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Some assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds	
Capital Assets	29,970,092
Some liabilities reported in the Statement of Net Position do not require the use of current financial resources and, therefore, are not reported as liabilities in governmental funds. These activities consist of:	
General Obligation Debt	(9,075,000)
IEPA Loans	(4,396,874)
Accrued Interest Payable	(196,566)
Compensated Absences	(36,144)
Deferred Inflows of Resources reported in the Statement of Net Position do not require the use of current financial resources and, therefore, are not reported as liabilities in governmental funds. These activities consist of:	
Unamortized Debt Issuance Premium (which is amortized over the life of the debt)	(85,913)
Deferred Real Estate Tax Revenue: For governmental funds, only receipts within 60 days of fiscal year end are recorded as revenue, with the remainder deferred. In governmental activities, the full amount of the receivable is recorded as revenue.	
	616,569
Net Position of Governmental Activities	<u>\$ 19,630,568</u>

See Notes to the Basic Financial Statements.

Lakes Region Sanitary District

Statement of Revenues, Expenditures and Changes in Fund Balances
 Governmental Funds
 For the Fiscal Year Ended April 30, 2013

	General Fund	Repair and Replacement Fund	Nonmajor Governmental Fund	Total Governmental Funds
Revenues:				
Property Taxes	\$ 1,287,872	\$ -	\$ -	\$ 1,287,872
Personal Property Replacement Tax	43,016	-	-	43,016
Sewer Connection Fees	512,831	-	-	512,831
User Fees	1,094,979	-	-	1,094,979
Penalty Fees	73,584	-	-	73,584
Sewer Permit Inspection Fees	7,000	-	-	7,000
Interest	5,960	1,356	347	7,663
Total Revenues	3,025,242	1,356	347	3,026,945
Expenditures:				
Current:				
General Government	1,132,296	87,954	-	1,220,250
Debt Service:				
Principal	839,720	-	-	839,720
Interest	521,545	-	-	521,545
Capital Outlay	244,113	-	-	244,113
Total Expenditures	2,737,674	87,954	-	2,825,628
Excess (Deficiency) of Revenues Over (Under) Expenditures	287,568	(86,598)	347	201,317
Other Financing Sources (Uses):				
Transfer In (Out)	(193,596)	147,954	45,642	-
Total Other Financing Sources (Uses)	(193,596)	147,954	45,642	-
Net Change In Fund Balances	93,972	61,356	45,989	201,317
Fund Balances:				
May 1, 2012	1,552,172	744,460	336,455	2,633,087
April 30, 2013	\$ 1,646,144	\$ 805,816	\$ 382,444	\$ 2,834,404

See Notes to the Basic Financial Statements.

Lakes Region Sanitary District

**Reconciliation of the Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
to the Statement of Activities
For the Fiscal Year Ended April 30, 2013**

Net change in fund balances—total governmental funds	\$	201,317
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures paid while governmental activities report depreciation expense to allocate those expenditures over the lives of the assets. This is the amount by which depreciation exceeded capital outlays in the current period.</p>		
Capital Outlays	\$ 244,113	
Depreciation Expense	<u>(1,196,885)</u>	(952,772)
<p>Capital assets that are donated to the District are reported as revenue in the governmental activities while not reported in governmental funds since not requiring current financial resources</p>		
		526,939
<p>Repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position:</p>		
General Obligation Debt	540,000	
IEPA Loans	<u>299,720</u>	839,720
<p>Premium on long-term debt is reported as an other financing source in the governmental funds in the year of issuance, but is recorded as a liability in the Statement of Net Position and is amortized over the life of the debt in the governmental activities:</p>		
Amortization of Debt Issuance Premium		6,873
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. These activities consist of:</p>		
Decrease in the accrual of Interest Expense on Long Term Debt		12,904
Increase in the accrual for Compensated Absences		(7,487)
<p>Property Tax Receivable: For governmental funds, only receipts within 60 days of fiscal year end are recorded as revenue, with the remainder deferred. In governmental activities the full amount of the receivable is recorded as revenue. This activity results in:</p>		
Increase in accrual of Property Tax Revenue		<u>(61,987)</u>
Change in net position of governmental activities	\$	<u>565,507</u>

See Notes to the Basic Financial Statements.

Lakes Region Sanitary District

Notes to the Basic Financial Statements For the Fiscal Year Ended April 30, 2013

Note 1. Summary of Significant Accounting Policies

The District was incorporated in 1973 under the Provisions of 70 ILCS 2805, an "Act to Create Sanitary Districts," approved July 2, 1936. The District operates under a Trustee form of government and provides construction and maintenance of sanitary sewers to the western Lake County region.

The accounting policies of the Lakes Region Sanitary District conform to accounting principles generally accepted in the United States of America as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant accounting policies:

(a) Financial Reporting Entity

As defined by generally accepted accounting principles established by the Governmental Accounting Standards Board (GASB), the financial reporting entity consists of (1) the primary government, (2) component units, which are legally separate organizations for which elected officials of the primary government are financially accountable, and (3) other organizations for which the nature and significance of their relationship with the primary government are such that the exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Financial accountability is defined as:

- (1) Appointment of a voting majority of the component unit's board, and either a) the ability to impose will by the primary government, or b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or
- (2) Fiscal dependency on the primary government.

Based on these criteria, there are no potential component units which should be included with the District's general purpose financial statements, nor is the District considered to be a potential component unit of any other government.

(b) Government-wide and Fund Financial Statements

Government-wide Financial Statements

The Government-Wide Statement of Net Position and the Statement of Activities display information about the reporting government as a whole. The effect of material interfund activity has been eliminated from these statements.

The Statement of Net Position presents the District's non-fiduciary assets and liabilities with the difference reported in three categories:

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds and other debt that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net position result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consist of net assets that do not meet the criteria of the two preceding categories.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first to finance qualifying activities, then unrestricted resources as they are needed.

Note 1. Summary of Significant Accounting Policies (continued)

(b) Government-wide and Fund Financial Statements (continued)

Government-wide Financial Statements (continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function, segment or program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Indirect expenses not allocated to functions are reported separately. Depreciation expense is specifically identified by function and is included in the direct expense of each function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and standard revenues that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items which are not program revenues are reported as general revenues.

Fund Financial Statements

Separate financial statements are provided for governmental funds. The fund financial statements provide information about the District's funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. The District has the following major governmental funds, and reports its remaining fund as nonmajor governmental fund:

General Fund - This is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The services which are administered by the District and accounted for in the general fund include sanitary sewer services.

Repair and Replacement Fund – This fund is used by the District to account for major repairs required to the sewer system. Funding is provided from operating transfers from the General Fund as expenses are incurred. In addition, an annual transfer takes place to build reserves for future repairs.

(c) Measurement Focus and Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred. Property taxes are recognized as revenues in the year for which they are levied (i.e., intended to finance).

Governmental fund financial statements are reported using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is used by all governmental fund types. Under the modified accrual basis of accounting, revenue is recognized when susceptible to accrual (i.e., when it becomes both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay current liabilities. For this purpose, the District considers revenue to be available if collected within 60 days of the end of the current fiscal year. Expenditures are recognized when the related fund liability is incurred. Principal and interest on general long-term debt are recognized as fund liabilities only when due.

Those revenues susceptible to accrual are property taxes, replacement taxes, interest, and charges for services. Permits, inspection fees and payment penalties are not susceptible to accrual because generally they are not measurable until received in cash.

Lakes Region Sanitary District

**Notes to the Basic Financial Statements
For the Fiscal Year Ended April 30, 2013**

Note 1. Summary of Significant Accounting Policies (continued)

(d) Assets, Liabilities and Net Position or Equity

Cash and Cash Equivalents

The District considers cash and cash equivalents to be all cash accounts and certificates of deposit with a maturity date of less than two years.

Transfers

Flows of assets (such as cash) without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the funds making transfers and as other financing sources in the funds receiving transfers.

Capital Assets

Capital assets, which include: land, buildings and improvements, sewer systems, lift stations, maintenance equipment, vehicles and office furniture and equipment are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined as assets with an initial individual cost of more than \$5,000, and an estimated useful life of greater than one year. Additions or improvements that significantly extend the useful life of an asset are capitalized. Expenditures for asset acquisitions and improvements are stated as capital outlay expenditures in the governmental funds.

These assets have been valued at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at their estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' lives are not capitalized.

Depreciation of capital assets is recorded in the Statement of Activities with accumulated depreciation reflected in the Statement of Net Position and is provided on the straight-line basis over the following estimated useful lives:

<u>Asset Category</u>	<u>Years</u>
Buildings & Improvements*	30
Sewer Systems	40
Lift Stations	20
Maintenance Equipment	7
Vehicles	5
Office Furniture and Equipment	7

* Useful life for Building Improvements is the remaining useful life of the related building.

Gains or losses from disposals of capital assets are included in operations on the Statement of Activities.

Lakes Region Sanitary District

Notes to the Basic Financial Statements For the Fiscal Year Ended April 30, 2013

Note 1. Summary of Significant Accounting Policies (continued)

(d) Assets, Liabilities and Net Position or Equity (continued)

Unearned Revenue

The District reports Unearned Revenue on its Statement of Net Position (Government-Wide Financial Statements) and on the Governmental Funds Balance Sheet (Fund Financial Statements). Unearned revenues arise when resources are received, but not yet earned; as when resources are received by the District before their use is budgeted for. Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

Compensated Absences

Amounts of accumulated compensated absences which are expected to be paid from available financial resources of the governmental funds are reported as a liability of those funds. The District's policies on compensated absences are as follows:

Vacation time is earned on January 1 of each year, or at the end of the probationary period for new employees. Vacation time is to be used within the calendar year that it is earned. The District shall compensate any employee who has failed to use, or schedule for use, the vacation time by December 31 in the first pay period in December. No employee may accumulate vacation pay beyond the year in which it is earned. The amount of unused vacation time eligible for payment in December is limited to a maximum of 40 hours.

Personal leave time is earned at the rate of one day for each month worked. A maximum of ten (10) days can be earned during any single calendar year. Unused personal leave at the end of each calendar year shall be accrued to a maximum of thirty (30) days. Unused personal leave in excess of thirty (30) days is payable at the option of the employee based upon 50% of the employee's current regular straight time hourly rate multiplied by eight (8) hours for each personal leave day in excess of thirty (30) that has been accrued as of the end of the calendar year. If an employee resigns without proper notice or is terminated for cause, the employee will not be paid for unused personal leave time. The General Fund is typically used to liquidate this liability.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations, including compensated absences, are reported as liabilities in the governmental-wide Statement of Net Position. Items such as premiums and gains or losses on debt certificate sales are capitalized and amortized over the life of the related debt.

In the fund financial statements, the face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Lakes Region Sanitary District

Notes to the Basic Financial Statements For the Fiscal Year Ended April 30, 2013

Note 1. Summary of Significant Accounting Policies (continued)

(d) Assets, Liabilities and Net Position or Equity (continued)

Fund Balance

Within the governmental fund types, the District's fund balances are reported in one of the following classifications:

Nonspendable – includes amounts that cannot be spent because they are either: (a) not in spendable form; or (b) legally or contractually required to be maintained intact. At April 30, 2013, the District has no nonspendable fund balance amounts.

Restricted – includes amounts that are restricted to specific purposes, that is, when constraints placed on the use of resources are either: (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation. At April 30, 2013, the District has no restricted fund balance amounts.

Committed – includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the District's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the District removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. The District's highest level of decision-making authority rests with the District's Board. The District passes formal resolutions to commit their fund balances. At April 30, 2013, the District has no committed fund balance amounts.

Assigned – includes amounts that are constrained by the District's *intent* to be used for specific purposes, but that are neither restricted nor committed. Intent is expressed by: a) the District's Board itself; or b) a body or official to which the Board has delegated the authority to assign amounts to be used for specific purposes. The District's Board has not delegated authority to any other body or official to assign amounts for a specific purpose within the General Fund. Within the other governmental fund type (capital projects) resources are assigned in accordance with the established fund purpose and approved budget/appropriation. Residual fund balances in these fund types that are not restricted or committed are reported as assigned.

Unassigned – includes the residual fund balance that has not been restricted, committed, or assigned within the general fund and deficit fund balances of other governmental funds.

It is the District's policy to consider restricted resources to have been spent first when an expenditure is incurred for which both restricted and unrestricted (i.e. - committed, assigned or unassigned) fund balances are available, followed by committed and then assigned fund balances. Unassigned amounts are used only after the other resources have been used.

Eliminations and Reclassifications

In the process of aggregating data for the government-wide Statement of Activities, some amounts reported as interfund activity and interfund balances in the funds are eliminated or reclassified.

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenditures/expenses during the period. Actual results could differ from these estimates.

Lakes Region Sanitary District

Notes to the Basic Financial Statements
For the Fiscal Year Ended April 30, 2013

Note 1. Summary of Significant Accounting Policies (continued)

(e) New Accounting Pronouncements

GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans. This statement did not have any material affect on the District in the current year.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in certain pronouncements issued on or before November 30, 1989 which does not conflict with or contradict GASB pronouncements. This statement did not have any material affect on the District in the current year.

The District was required to implement GASB Statement No. 63 for fiscal year 2013. Additionally, the District chose to implement GASB Statement No. 65 one year earlier than required. This decision was made due to the closely related nature of these two pronouncements.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term 'deferred' in financial statement presentations.

The format and title of the affected government-wide financial statement, and the categories reported thereon, have been changed and restated as required.

The amount of the restatement was related entirely to elimination of the carrying amount of unamortized financing costs; which, based on the new pronouncements and retroactively applied, would have been recognized in total in the fiscal year in which originally incurred.

The restatement of previously reported figures are as follows:

Net position as reported fiscal year 2012	\$ 19,243,679
Carrying amount of unamortized financing costs eliminated	178,618
Net position fiscal year 2012, as restated	<u><u>\$ 19,065,061</u></u>

See Note 10 for the effects of the implementation of new standards issued, but not yet adopted.

Lakes Region Sanitary District

**Notes to the Basic Financial Statements
For the Fiscal Year Ended April 30, 2013**

Note 2. Stewardship, Compliance and Accountability

Budgets

Budgets are prepared for all funds. Budgets are prepared by function and activity, and include information on the past year, current year estimates and requested appropriations for the next fiscal year. All appropriations lapse at fiscal year-end.

The proposed budget is presented to the District's Board of Trustees for review and approval. Public hearings are conducted to obtain taxpayer comments.

The budget may be amended by the District's Board of Trustees.

Expenditures may not legally exceed budgeted appropriations at fund level, as amended.

There were no funds for which expenditures exceeded budgeted appropriations for the fiscal year.

Note 3. Cash and Cash Equivalents

The District's investment policy is to establish cash management and investment guidelines for District Officials responsible for the stewardship of public funds. The District has established specific objectives to meet its guidelines.

The District deposits and invests all its monies in investments allowed by state statutes. The statutes authorize the District to make deposits in commercial banks and savings and loan institutions, and make investments in obligations of the U.S. Treasury and U.S. agencies, obligations of states and their political subdivisions, savings accounts, credit union shares, repurchase agreements (under certain statutory restrictions), commercial paper rated within the three highest classifications by at least two standard rating services and the Illinois Funds.

As of April 30, 2013, the District's Cash and Cash Equivalents are comprised of cash, money markets and certificates of deposit.

Deposits: As of April 30, 2013

The carrying amount of the District's deposits totaled	\$ 5,098,202	
The related bank balances totaled		<u>\$ 5,089,310</u>
Cash on hand totaled	340	
Cash and Cash Equivalents - as reported in the financial statements	<u>\$ 5,098,542</u>	

Custodial credit risk - deposits

In the case of deposits, this is the risk, that in the event of a bank failure, the District's deposits may not be returned to the District.

As of April 30, 2013, all of the District's bank balance is covered by federal depository insurance or collateral held by the pledging financial institution's trust department, or its agent, in the District's name. There is no amount of bank balance covered by collateral held by a pledging financial institution, or its trust department, or its agent, but not in the District's name; or deposits which are uninsured or uncollateralized.

Lakes Region Sanitary District

**Notes to the Basic Financial Statements
For the Fiscal Year Ended April 30, 2013**

Note 4. Property Taxes

The District annually establishes a legal right to the property tax assessments upon the enactment of a tax levy ordinance by the District's Board of Trustees. These tax assessments are levied in December and attach as an enforceable lien on the previous January 1. Tax bills are prepared by the County and issued on or about May 1, and are payable in two installments which become delinquent on or about June 1 and September 1.

Property taxes are billed, collected and remitted periodically by the County Treasurer of Lake County, Illinois. A reduction for collection losses based on historical collection experience has been provided to reduce the taxes receivable to the estimated amount to be collected. That portion of the property taxes receivable which is not expected to be collected within sixty (60) days after year end is not considered to pay current liabilities and is, therefore, shown as unearned revenue in the governmental funds.

Note 5. Capital Assets

A summary of changes in the capital assets for governmental activities of the District for the year ended April 30, 2013 is as follows:

	Balance at May 1, 2012	Additions	Deletions	Balance at April 30, 2013
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 162,875	\$ -	\$ -	\$ 162,875
Construction in progress - sewers	282,485	244,113	(285,423)	241,175
Total capital assets not being depreciated	<u>445,360</u>	<u>244,113</u>	<u>(285,423)</u>	<u>404,050</u>
Capital assets being depreciated:				
Sewer system	31,135,511	526,939	-	31,662,450
Lift stations	6,753,205	285,423	-	7,038,628
Building and improvements	1,918,028	-	-	1,918,028
Office furniture and equipment	21,197	-	-	21,197
Maintenance equipment	117,094	-	-	117,094
Vehicles	56,465	-	-	56,465
Total capital assets being depreciated	<u>40,001,500</u>	<u>812,362</u>	<u>-</u>	<u>40,813,862</u>
Less accumulated depreciation for:				
Sewer system	7,760,261	784,975	-	8,545,236
Lift stations	1,735,491	329,243	-	2,064,734
Building and improvements	415,572	63,934	-	479,506
Office furniture and equipment	16,189	1,545	-	17,734
Maintenance equipment	76,915	10,464	-	87,379
Vehicles	46,507	6,724	-	53,231
Total accumulated depreciation	<u>10,050,935</u>	<u>1,196,885</u>	<u>-</u>	<u>11,247,820</u>
Total capital assets being depreciated, net	<u>29,950,565</u>	<u>(384,523)</u>	<u>-</u>	<u>29,566,042</u>
Governmental activities Capital assets, net	<u>\$ 30,395,925</u>	<u>\$ (140,410)</u>	<u>\$ (285,423)</u>	<u>\$ 29,970,092</u>

All depreciation was charged to General Government.

Lakes Region Sanitary District

**Notes to the Basic Financial Statements
For the Fiscal Year Ended April 30, 2013**

Note 6. Debt Obligations

The following is a summary of debt obligation activity for the District associated with governmental activities for the year ended April 30, 2013:

	Outstanding Debt as of May 1, 2012	Additions	Reductions	Outstanding Debt as of April 30, 2013	Due within one year
IEPA Loan L17-1123	\$ 701,200	\$ -	\$ 85,761	\$ 615,439	\$ 88,027
IEPA Loan L17-2123	3,995,394	-	213,959	3,781,435	219,342
Series 2006 General Obligation Debt Certificates	5,435,000	-	465,000	4,970,000	480,000
Series 2010 General Obligation Debt Certificates	4,180,000	-	75,000	4,105,000	80,000
Compensated Absences	28,657	42,295	34,808	36,144	36,144
	<u>\$ 14,340,251</u>	<u>\$ 42,295</u>	<u>\$ 874,528</u>	<u>\$ 13,508,018</u>	<u>\$ 903,513</u>

Outstanding debt as of April 30, 2012 consists of the following:

IEPA Loan L17-1123:

IEPA loan due in semi-annual installments of \$51,804, including interest of 2.625%, through June 30, 2019. \$ 615,439

IEPA Loan L17-2123:

IEPA loan due in semi-annual installments of \$156,258, including interest of 2.500%, through June 30, 2027. 3,781,435

Series 2006 General Obligation Debt Certificates:

General Obligation Debt Certificates, due on December 1, 2025. Interest of 4.200% to 7.000%, payable semi-annually on June 1 and December 1. 4,970,000

Series 2010 General Obligation Debt Certificates:

General Obligation Debt Certificates, due on December 1, 2029. Interest of 2.000% to 4.500%, payable semi-annually on June 1 and December 1. 4,105,000

Compensated Absences

36,144

Total Debt Obligations

\$ 13,508,018

Lakes Region Sanitary District

Notes to the Basic Financial Statements
For the Fiscal Year Ended April 30, 2013

Note 6. Debt Obligations (continued)

The annual debt service requirements to maturity are as follows:

Fiscal Years Ending April 30:	Governmental		
	Principal	Interest	Total
2014	\$ 867,369	\$ 492,446	\$ 1,359,815
2015	880,212	462,602	1,342,814
2016	878,256	432,146	1,310,402
2017	901,506	400,322	1,301,828
2018	844,966	355,362	1,200,328
2019-2023	4,882,260	1,296,140	6,178,400
2024-2028	3,667,305	468,895	4,136,200
2029-2030	550,000	37,125	587,125
Total	<u>\$ 13,471,874</u>	<u>\$ 3,945,038</u>	<u>\$ 17,416,912</u>

The District's legal debt limitation as of April 30, 2013 was determined as follows:

Assessed Valuation at December 31, 2012	<u>\$ 492,976,934</u>
Legal Debt Limit - 5.75% of Assessed Valuation	<u>\$ 28,346,174</u>
Amount of debt applicable to the Legal Debt Limit:	
IEPA Loan L17-1123	615,439
IEPA Loan L17-2123	3,781,435
Series 2006 General Obligation Debt Certificates	4,970,000
Series 2010 General Obligation Debt Certificates	4,105,000
	<u>13,471,874</u>
Legal Debt Margin	<u>\$ 14,874,300</u>

Lakes Region Sanitary District

**Notes to the Basic Financial Statements
For the Fiscal Year Ended April 30, 2013**

Note 7. Employee Retirement Plan - Illinois Municipal Retirement Fund

a) Plan Description.

The District's defined benefit pension plan for Regular employees provides retirement and disability benefits, post retirement increases, and death benefits to plan members and beneficiaries. The District's plan is affiliated with the Illinois Municipal Retirement Fund (IMRF), an agent multiple-employer plan. Benefit provisions are established by statute and may only be changed by the General Assembly of the State of Illinois. IMRF issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained on-line at www.imrf.org.

b) Funding Policy.

As set by statute, the District's Regular plan members are required to contribute 4.50 percent of their annual covered salary. The statutes require employers to contribute the amount necessary, in addition to member contributions, to finance the retirement coverage of its own employees. The employer required contribution rate for calendar year 2012 was 12.84 percent of annual covered payroll. The employer also contributes for disability benefits, death benefits and supplemental retirement benefits, all of which are pooled at the IMRF level. Contribution rates for disability and death benefits are set by the IMRF Board of Trustees, while the supplemental retirement benefits rate is set by statute.

c) Annual Pension Cost.

For calendar year 2012, the District's annual pension cost of \$58,219 for the Regular plan was equal to the required and actual contributions.

Three-Year Trend Information for the Regular Plan

<u>Calendar Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/2012	\$ 58,219	100.0%	\$ -
12/31/2011	56,889	100.0%	-
12/31/2010	56,781	100.0%	-

The required contribution for calendar year 2012 was determined as part of the December 31, 2010, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at December 31, 2010, included (a) 7.5 percent investment rate of return (net of administrative and direct investment expenses), (b) projected salary increases of 4.00% a year, attributable to inflation, (c) additional projected salary increases ranging from 0.4% to 10.0% per year depending on age and service, attributable to seniority/merit, and (d) post retirement benefit increases of 3% annually. The actuarial value of the District's Regular plan assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period with a 20% corridor between the actuarial and market value of assets. The District's Regular plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open 30 year basis.

Lakes Region Sanitary District

**Notes to the Basic Financial Statements
For the Fiscal Year Ended April 30, 2013**

Note 7. Employee Retirement Plan - Illinois Municipal Retirement Fund (continued)

d) Funded Status and Funding Progress.

As of December 31, 2012, the most recent actuarial valuation date, the Regular plan was 57.80 percent funded. The actuarial accrued liability for benefits was \$832,134 and the actuarial value of assets was \$480,969, resulting in an underfunded actuarial accrued liability (UAAL) of \$351,165. The covered payroll (annual payroll of active employees covered by the plan) was \$453,419 and the ratio of the UAAL to the covered payroll was 77.45 percent.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Note 8. Transfers

Interfund transfers were used to:

- Record payments from the General Fund for expenditures incurred by other funds.
- Transfer the annual funding amount for the Repair and Replacement Fund.

<u>Fund</u>	Transfers In	Transfers Out
Major Governmental:		
General Fund	\$ -	\$ 193,596
Repair and Replacement Fund	147,954	-
Nonmajor Governmental Fund	45,642	-
Total	<u>\$ 193,596</u>	<u>\$ 193,596</u>

Note 9. Risk Management

The District is exposed to various risks of loss related to workers' compensation and torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. Settled claims resulting from those risks have not exceeded commercial insurance coverage in any of the past three years. The District has not had significant reductions in insurance coverage during the year.

Lakes Region Sanitary District

Notes to the Basic Financial Statements For the Fiscal Year Ended April 30, 2013

Note 10. Pronouncements Issued But Not Yet Adopted

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus* – an amendment of GASB Statements No. 14 and No. 34 will improve financial reporting for a governmental financial reporting entity by addressing reporting entity issues that have arisen since the issuance of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. This statement will be effective for the District beginning with its year ending April 30, 2014.

GASB Statement No. 66, *Technical Corrections – 2012 - an amendment of GASB Statements No. 10 and No. 62*, improves accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement will be effective for the District beginning with its year ending April 30, 2014.

GASB Statement No. 67, *Financial Reporting for Pension Plans*, builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position. This statement enhances note disclosures and RSI for both defined benefit and defined contribution pension plans and requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year RSI schedules. This statement will be effective for the District beginning with its year ended April 30, 2015.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information (RSI). This statement will be effective for the District beginning with its year ended April 30, 2015.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term *government combinations* includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. This statement requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions and should be applied on a prospective basis. This statement will be effective for the District beginning with its year ended April 30, 2015.

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows related to the guarantee expected to be incurred. This statement specifies the information required to be disclosed by governments that extend nonexchange financial guarantees. In addition, this statement requires new information to be disclosed by governments that receive nonexchange financial guarantees. This statement will be effective for the District beginning with its year ended April 30, 2015.

Management does not believe these statements will have a significant effect, if any, on its financial statements.

Required Supplementary Information

Lakes Region Sanitary District

**Schedule of Funding Progress
Illinois Municipal Retirement Fund**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2012	\$ 480,969	\$ 832,134	\$ 351,165	57.80%	\$ 453,419	77.45%
12/31/2011	403,083	754,667	351,584	53.41%	446,536	78.74%
12/31/2010	296,819	658,078	361,259	45.10%	447,979	80.67%

On a market value basis, the actuarial value of assets as of December 31, 2012 is \$499,015. On a market basis, the funded ratio would be 59.97%.

The actuarial value of assets and accrued liability cover active and inactive members who have service credit with the District. They do not include amounts for retirees. The actuarial accrued liability for retirees is 100% funded.

Lakes Region Sanitary District

Schedule of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual

General Fund

For the Fiscal Year Ended April 30, 2013

	Original & Final Budget	Actual	Favorable (Unfavorable) Variance with Final Budget
Revenues:			
Property Taxes	\$ 1,325,000	\$ 1,287,872	\$ (37,128)
Personal Property Replacement Tax	37,400	43,016	5,616
Sewer Connection Fees	453,400	512,831	59,431
User Fees	950,000	1,094,979	144,979
Penalty Fees	-	73,584	73,584
Sewer Permit Inspection Fees	5,300	7,000	1,700
Interest	4,000	5,960	1,960
Total Revenues	<u>2,775,100</u>	<u>3,025,242</u>	<u>250,142</u>
Expenditures:			
Current:			
General Government	1,158,800	1,132,296	26,504
Debt Service:			
Principal	839,800	839,720	80
Interest	521,700	521,545	155
Capital Outlay	340,000	244,113	95,887
Total Expenditures	<u>2,860,300</u>	<u>2,737,674</u>	<u>122,626</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(85,200)</u>	<u>287,568</u>	<u>372,768</u>
Other Financing Uses:			
Transfers Out:	(230,000)	(193,596)	36,404
Total Other Financing Uses	<u>(230,000)</u>	<u>(193,596)</u>	<u>36,404</u>
Net Change In Fund Balances	<u>\$ (315,200)</u>	<u>93,972</u>	<u>\$ 409,172</u>
Fund Balances:			
May 1, 2011		<u>1,552,172</u>	
April 30, 2012		<u>\$ 1,646,144</u>	

Note to Required Supplementary Information
For the Fiscal Year Ended April 30, 2013

Note 1. Budgetary Basis of Accounting

The General Fund budget is adopted on a basis consistent with accounting principles generally accepted in the United States of America.