

SOUTHWESTERN ILLINOIS FLOOD  
PREVENTION DISTRICT COUNCIL

REPORT AND FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

SOUTHWESTERN ILLINOIS FLOOD PREVENTION DISTRICT COUNCIL  
TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-5
BASIC FINANCIAL STATEMENTS:	
GOVERNMENT - WIDE FINANCIAL STATEMENTS:	
<u>Exhibit</u>	
A            Statement of Net Assets	6
B            Statement of Activities	7
FUND FINANCIAL STATEMENTS:	
<u>Exhibit</u>	
C            Balance Sheet - Governmental Fund	8
D            Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	9
E            Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Fund	10
F            Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Fund to the Statement of Activities	11
NOTES TO FINANCIAL STATEMENTS	12-20
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Governmental Fund	21



Certified Public Accountants

Richard C. Scheffel, CPA  
Dennis E. Ulrich, CPA  
Ronald C. Schneider, CPA  
Michael E. Fitzgerald, CPA  
Kimberly S. Loy, CPA  
Steven P. Langendorf, CPA  
Steven C. Pembroke, CPA  
Scott A. Weber, CPA  
Mark J. Korte, CPA

## INDEPENDENT AUDITOR'S REPORT

February 9, 2012

To the Southwestern Illinois Flood  
Prevention District Council

We have audited the accompanying financial statements of the governmental activities and major fund of the Southwestern Illinois Flood Prevention District Council (the Council) as of and for the year ended September 30, 2011 which collectively comprise the Council's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Council's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of Southwestern Illinois Flood Prevention District Council as of September 30, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

□ 322 State Street • Alton, IL 62002 • o 618.465.4288 • f 618.462.3818

□ 143 North Kansas • P.O. Box 633 • Edwardsville, IL 62025 • o 618.656.1206 • f 618.656.3536

□ #2 Woodcrest Professional Park • P.O. Box 374 • Highland, IL 62249 • o 618.654.9895 • f 618.654.9898

□ 106 County Road • Jerseyville, IL 62052 • o 618.498.6841 • f 618.498.6842

□ RR 3, Box 129BA • US Hwy 267 N • Carrollton, IL 62016 • o 217.942.3821 • f 217.942.6614



Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 5 and 21 be presented to supplement the basic financial statements. Such information, although not a 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.

*Scheffel & Company P.C.*

SOUTHWESTERN ILLINOIS FLOOD PREVENTION DISTRICT COUNCIL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2011

This section of the Southwestern Illinois Flood Prevention District Council's annual financial report offers a narrative overview and analysis of the financial activities during the fiscal year ended September 30, 2011. It should be read in conjunction with the Southwestern Illinois Flood Prevention District Council's financial statements, which follow this section.

**Southwestern Illinois Flood Prevention District Council's Overview**

The formation of the Southwestern Illinois Flood Prevention District Council was authorized by the Illinois Flood Prevention District Act (70 ILCS 750). The Council was formed in June of 2009 by intergovernmental agreement between county flood prevention districts in Madison, St. Clair and Monroe counties and is governed by a nine member Board of Directors, three from each county. The Council's fiscal year end is September 30. The purpose of the Council is to finance, design and manage the reconstruction of the flood protection systems along the Mississippi River in the Illinois counties of Madison, St. Clair and Monroe. The Council's activities are funded by a ¼ cent sales tax collected in the three counties.

**Required Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Council's basic financial statements. The Council's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

The government-wide financial statements report information of the Southwestern Illinois Flood Prevention District Council and its component activities using accounting methods similar to those used by private sector companies and offer short and long-term financial information about the fiscal year 2011.

The statement of net assets presents information on all of the assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Southwestern Illinois Flood Prevention District Council is improving or deteriorating.

The current year's revenue and expenses are accounted for in the statement of activities regardless of when cash is received or paid. All of the operations and programs are included here.

In addition, the notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

The Council currently uses only one fund type – governmental – and is presented based on the sources and uses of liquid resources. The financial plan (budget) is developed in accordance with the use of the governmental fund.

## Financial Highlights

Net asset deficit as of September 30, 2011, was (\$5,340,197), a decrease of \$5,345,641, compared to net assets of \$5,444 as of September 30, 2010, decreasing the Council's capital position.

Total assets and liabilities both increased as a result of the issuance of term and serial bonds to finance the levee improvements in the Illinois counties of Madison, St. Clair, and Monroe.

### Statement of Net Assets for 2011 Compared to 2010

<b>Condensed Statement of Net Assets</b>	<b>2011</b>	<b>2010</b>	<b>Difference</b>
Current Assets	\$85,608,008	833,746	84,774,262
Noncurrent Assets	<u>7,277,870</u>	<u>5,444</u>	<u>7,272,426</u>
Total Assets	<u>\$92,885,878</u>	<u>839,190</u>	<u>92,046,688</u>
Total Current Liabilities	\$ 6,167,632	833,746	5,333,886
Long-Term Liabilities	<u>92,058,443</u>	-	<u>92,058,443</u>
Total Liabilities	<u>\$98,226,075</u>	<u>833,746</u>	<u>97,392,329</u>
Invested in Net Capital Assets	\$ 7,335	5,444	1,891
Restricted Net Assets	6,194,424	-	6,194,424
Unrestricted Net Assets (Deficit)	<u>(11,541,956)</u>	-	<u>(11,541,956)</u>
Total Net Assets (Deficit)	<u>\$ (5,340,197)</u>	<u>5,444</u>	<u>(5,345,641)</u>
Total Liabilities and Net Assets	<u>\$92,885,878</u>	<u>839,190</u>	<u>92,046,688</u>

### Statement of Activities for 2011 Compared to 2010

<b>Revenues:</b>	<b>2011</b>	<b>2010</b>	<b>Difference</b>
Sales Tax Proceeds from Districts	\$11,506,734	7,809,955	3,696,779
County Contributions	-	75,921	(75,921)
Interest Income	<u>700,357</u>	<u>2,162</u>	<u>698,195</u>
Total Revenues	<u>\$12,207,091</u>	<u>7,888,038</u>	<u>4,319,053</u>
<b>Expenditures:</b>			
General and Administration	\$ 231,986	200,010	31,976
Design and Construction	10,573,653	6,206,512	4,367,141
Professional Services	119,791	1,482,626	(1,362,835)
Reimbursement of County Advances	3,501,778	-	3,501,778
Interest and Fiscal Charges	<u>3,125,524</u>	-	<u>3,125,524</u>
Total Expenditures	<u>\$17,552,732</u>	<u>7,889,148</u>	<u>9,663,584</u>
<b>Change in Net Assets</b>	<b>\$ (5,345,641)</b>	<b>(1,110)</b>	<b>(5,344,531)</b>
<b>Net Assets – Beginning of Year</b>	<u>5,444</u>	<u>6,554</u>	<u>(1,110)</u>
<b>Net Assets (Deficit) – End of Year</b>	<u>\$ (5,340,197)</u>	<u>5,444</u>	<u>(5,345,641)</u>

## **Analysis of Financial Activities**

Current assets increased \$84.7 million due largely from the bond issuance proceeds.

Noncurrent assets increased in 2011 by \$7.3 million reflecting \$6.2 million of the bond proceeds held in reserve and \$1.1 million of deferred bond issuance costs to be amortized over the life of the bonds.

Current liabilities increased by \$5.3 million primarily related to interest and principle payments due on the bonds payable.

Long-term liabilities increased \$92 million reflecting the bonds payable and unamortized premium on the bonds.

The sales tax revenues increased by \$3.7 million. These receipts represent the ¼ cent sales tax collected in Madison, St. Clair and Monroe County Flood Prevention Districts.

Interest income increased by \$698 thousand as a result of the investment of the bond proceeds during the year.

The overall expenditures increased by \$9.7 million. Design and construction costs for the levee improvements increased by \$4.4 million during the year and the Council was able to reimburse the county flood prevention districts for expenditures that they incurred for levee repairs and related expenses prior to the formation of the Council. This reimbursement totaled \$3.5 million. Interest and financing costs increased by \$3.1 million which was related to the issuance of the bonds in November 2010.

## **Long-Term Debt**

Southwestern Illinois Flood Prevention District Council issued \$94,195,000 of revenue bonds during the year. The maturity of the bonds varies in maturity from 2012 through 2035. See the accompanying financial statement notes for additional information related to outstanding debt.

## **Economic Conditions**

Southwestern Illinois Flood Prevention District Council continues to rely on the ¼ cent sales tax collected in the three Illinois counties of Madison, Monroe and St. Clair. Retail sales have been affected by the difficult economic conditions but tax receipts have continued to grow at a modest pace (6% in 2010 and about 2% in 2011). The design of levee system improvements along the Mississippi river in the three counties is nearly complete and construction is expected to be well underway in 2012. We remain confident that the Council's financial position is strong.

## **Contacting the Council's Financial Management**

This financial report is designed to provide a general overview of the Southwestern Illinois Flood Prevention District Council's finances for all those with an interest in the Council. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Supervisor of Construction and the Works, Southwestern Illinois Flood Prevention District Council, 104 United Drive, Collinsville, IL 62234.

SOUTHWESTERN ILLINOIS FLOOD PREVENTION DISTRICT COUNCIL  
STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2011

	<u>Governmental Activities</u>
<u>ASSETS:</u>	
Current Assets:	
Cash and Investments	\$ 83,109,916
Accounts Receivable	1,966,387
Interest Receivable	399,128
Prepaid Expenses	3,423
Deferred Charges - Bond Issuance Costs	129,154
Total Current Assets	<u>85,608,008</u>
Noncurrent Assets:	
Bond Reserve	6,194,424
Deferred Charges - Bond Issuance Costs (Net of Current Portion)	1,076,111
Capital Assets, Net of Accumulated Depreciation	7,335
Total Noncurrent Assets	<u>7,277,870</u>
Total Assets	<u><u>92,885,878</u></u>
<u>LIABILITIES AND NET ASSETS:</u>	
Current Liabilities:	
Accounts Payable and Accrued Interest	3,546,896
Bonds Payable	2,455,000
Unamortized Premium on Bond Issuance	165,736
Total Current Liabilities	<u>6,167,632</u>
Noncurrent Liabilities:	
Bonds Payable (Net of Current Portion)	91,740,000
Unamortized Premium on Bond Issuance (Net of Current Portion)	318,443
Total Noncurrent Liabilities	<u>92,058,443</u>
Net Assets:	
Invested in Capital Assets, Net of Related Debt	7,335
Restricted for:	
Bond Reserve	6,194,424
Unrestricted (Deficit)	<u>(11,541,956)</u>
Total Net Assets (Deficit)	<u>(5,340,197)</u>
Total Liabilities and Net Assets	<u><u>\$ 92,885,878</u></u>

See accompanying notes to the basic financial statements.



SOUTHWESTERN ILLINOIS FLOOD PREVENTION DISTRICT COUNCIL  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2011

<u>Function/Programs</u>	<u>Expenses</u>	<u>Charges for</u> <u>Services</u>	<u>Program Revenues</u>		<u>Capital</u> <u>Grants</u>	<u>Net (Expense) Revenue and</u> <u>Changes in Net Assets</u> <u>Primary Government</u> <u>Total</u> <u>Governmental</u> <u>Activities</u>
			<u>Operating</u> <u>Grants</u>			
Primary Government						
Governmental Activities:						
General and Administrative	\$ 231,986	-	-	-	-	(231,986)
Design and Construction	10,573,653	-	-	-	-	(10,573,653)
Professional Services	119,791	-	-	-	-	(119,791)
Reimbursement of County Advances	3,501,778	-	-	-	-	(3,501,778)
Interest and Fiscal Charges (Net of Subsidy)	3,125,524	-	-	-	-	(3,125,524)
Total Governmental Activities	<u>17,552,732</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(17,552,732)</u>
General Revenues:						
Sales Tax Proceeds From Districts						11,506,734
Interest Income						<u>700,357</u>
Total General Revenues						<u>12,207,091</u>
Changes in Net Assets						(5,345,641)
Net Assets - Beginning						<u>5,444</u>
Net Assets (Deficit) - Ending						<u>\$ (5,340,197)</u>

See accompanying notes to the basic financial statements.

SOUTHWESTERN ILLINOIS FLOOD PREVENTION DISTRICT COUNCIL  
BALANCE SHEET - GOVERNMENTAL FUND  
SEPTEMBER 30, 2011

ASSETS	
Cash and Investments	\$ 83,109,916
Accounts Receivable	1,966,387
Interest Receivable	399,128
Prepaid Expenses	3,423
Bond Reserve	6,194,424
Total Assets	<u>91,673,278</u>
LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts Payable	<u>1,414,134</u>
Fund Balances:	
Nonspendable	3,423
Restricted	6,194,424
Committed	4,354,016
Unassigned	79,707,281
Total Fund Balances	<u>90,259,144</u>
Total Liabilities and Fund Balances	<u>\$ 91,673,278</u>

See accompanying notes to the basic financial statements.

SOUTHWESTERN ILLINOIS FLOOD PREVENTION DISTRICT COUNCIL  
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES  
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES  
SEPTEMBER 30, 2011

Total governmental fund balances	\$ 90,259,144
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in the governmental activities are not financial resources and, therefore are not reported in the funds.	7,335
Bond issuance costs are expensed in the governmental funds but are required to be amortized over the life of the bond issuance.	1,205,265
Bond premiums are recognized as other financing sources in the governmental funds but are required to be amortized over the life of the bond issuance.	(484,179)
Interest on long-term debt is not accrued in governmental funds but rather is recognized as an expenditure when due.	(2,132,762)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(94,195,000)</u>
Net assets of governmental activities	<u>\$ (5,340,197)</u>

See accompanying notes to the basic financial statements.

SOUTHWESTERN ILLINOIS FLOOD PREVENTION DISTRICT COUNCIL  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES - GOVERNMENTAL FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2011

REVENUES:	
Sales Tax Proceeds From Districts	\$ 11,506,734
Interest Income	700,357
Total Revenues	<u>12,207,091</u>
EXPENDITURES:	
Current:	
General and Administrative	227,565
Design and Construction	10,573,653
Professional Services	119,791
Reimbursement of County Advances	3,501,778
Capital Outlay:	
Equipment/Software	6,311
Debt Service:	
Interest	1,832,801
Less Federal Interest Subsidy	(814,069)
Bond Issuance Costs	1,325,272
Other Fiscal Charges	3,081
Total Expenditures	<u>16,776,183</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(4,569,092)</u>
OTHER FINANCING SOURCES:	
Proceeds from Bond Issuance	94,195,000
Premium on Bond Issuance	633,236
Total Other Financing Sources	<u>94,828,236</u>
NET CHANGE IN FUND BALANCE	90,259,144
FUND BALANCES:	
Beginning of Year	-
End of Year	<u>\$ 90,259,144</u>

See accompanying notes to the basic financial statements.

SOUTHWESTERN ILLINOIS FLOOD PREVENTION DISTRICT COUNCIL  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUND  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2011

Net change in fund balance - total governmental funds	\$ 90,259,144
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	1,891
Bond issuance costs are expensed in the governmental funds but are required to be amortized over the life of the bond issuance.	1,205,265
Bond premiums are recognized as other financing sources in the governmental funds but are required to be amortized over the life of the bond issuance.	(484,179)
Interest on long-term debt is not accrued in governmental funds but rather is recognized as an expenditure when due.	(2,132,762)
Long-term liabilities, including notes payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(94,195,000)</u>
Change in net assets of governmental activities	<u>\$ (5,345,641)</u>

See accompanying notes to the basic financial statements.

SOUTHWESTERN ILLINOIS FLOOD PREVENTION DISTRICT COUNCIL  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Southwestern Illinois Flood Prevention District Council (the Council) was formed in June 2009 as authorized by the Illinois Flood Prevention Council Act (70 ILCS 750). The Council is responsible for the reconstruction of flood protection systems along the Mississippi River in parts of three Illinois counties – Madison, St. Clair, and Monroe; and four levee districts – Fish Lake, Prairie DuPont, Metro East Sanitary District, and Wood River. The initial design and cost estimates for the project total approximately \$160 million.

The accounting policies and financial reporting practices of the Council conform to generally accepted accounting principles (GAAP) applicable to governmental entities.

A. Reporting Entity

The Council defines its reporting entity in accordance with provisions established by the Governmental Accounting Standards Board (GASB). GASB requirements for inclusion of component units are based upon whether the Council's governing body has a significant amount of financial accountability for another entity.

The following criteria have been developed to determine whether related organizations should be included within the financial reporting entity. The criteria include, but are not limited to, whether the Council exercises oversight responsibility (which includes financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters), scope of public services, and special financing relationships.

The Council has determined that no other outside agency meets any of the above criteria (except scope of public service) and therefore, no other agency has been included as a component unit in the Council's financial statements. The Council is not a component unit of any other government.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Currently, the Council does not have any business-type activities.

SOUTHWESTERN ILLINOIS FLOOD PREVENTION DISTRICT COUNCIL  
NOTES TO FINANCIAL STATEMENTS (CONT'D)  
SEPTEMBER 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *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 contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund financial statements report detailed information about the Council. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. The Council consists of one major fund.

General Fund – The General Fund is the operating fund of the Council. It accounts for all financial resources that are not required to be accounted for in another fund. It is currently the only fund of the Council.

C. Measurement Focus, Basis of Accounting, and Financial Statements 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, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The government considers revenues to be available if collected within 60 days of the end of the current fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However interest on long-term debt is recognized when paid. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

D. Budgets and Budgetary Accounting

The Council follows these procedures in establishing the budgetary data reflected in the financial statements:

The Council adopts its annual budget prior to the commencement of the fiscal year to allow time for the budget to be reviewed and approved by each flood prevention district prior to August 31. The budget is prepared on the accrual basis of accounting.

The budget for the Council was approved August 18, 2010.

SOUTHWESTERN ILLINOIS FLOOD PREVENTION DISTRICT COUNCIL  
NOTES TO FINANCIAL STATEMENTS (CONT'D)  
SEPTEMBER 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

The Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual presents a comparison of budgetary data to actual results. The fund utilizes the same basis of accounting for both budgetary purposes and actual results.

E. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

F. Assets, Liabilities, and Net Assets or Equity

Cash and Investments

The Council has defined cash to include cash on hand and demand deposits.

Receivables

All receivables are reported net of estimated uncollectible amounts.

Capital Assets

Capital assets, which include equipment and software, are reported in the government-wide financial statements. All capital assets are defined by the Council as assets with an initial, individual cost of more than \$200. Fixed assets are valued at cost.

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

Assets capitalized are depreciated using the straight-line method. Estimated useful lives are as follows:

<u>Assets</u>	<u>Years</u>
Software	3
Equipment	3-5
Furniture	10



SOUTHWESTERN ILLINOIS FLOOD PREVENTION DISTRICT COUNCIL  
NOTES TO FINANCIAL STATEMENTS (CONT'D)  
SEPTEMBER 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Long term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported gross of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as another financing source. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance cost, whether or not withheld from the actual debt proceeds received are reported as debt service expenditures.

Equity Classifications

Government-Wide Statements

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt – Amount of capital assets, net of accumulated depreciation, less outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets – Amount of net assets that are subject to restrictions that are imposed by 1) external groups, such as creditors, grantors, contributors or laws and regulations of other governments or 2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets – Net assets that are neither classified as restricted nor as invested in capital assets, net of related debt.

Fund Statements

Governmental fund equity is classified as fund balance. In accordance with Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the Council classifies governmental fund balance as follows:

- a. Nonspendable – Includes fund balance amounts that cannot be spent either because they are not in spendable form or because legal or contractual requirements require them to be maintained intact.

SOUTHWESTERN ILLINOIS FLOOD PREVENTION DISTRICT COUNCIL  
NOTES TO FINANCIAL STATEMENTS (CONT'D)  
SEPTEMBER 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

- b. Restricted – Consists of fund balances with constraints placed on their use either by 1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments or, 2) law through constitutional provisions or enabling legislation.
- c. Committed – Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority. Fund balance amounts are committed through a formal action (resolution) of the Council board. This formal action must occur prior to the end of the reporting period, but the amount of the commitment, which will be subject to the constraints, may be determined in the subsequent period. Any changes to the constraints imposed require the same formal action of the Council board that originally created the commitment.
- d. Assigned – Includes spendable fund balance amounts that are intended to be used for specific purposes that are not considered restricted or committed. Fund balance may be assigned by the Council board taking action to assign amounts for a specific purpose. Assignments may take place after the end of the reporting period. As of September 30, 2011, the Council does not have assigned funds.
- e. Unassigned – Includes residual positive fund balance within the general fund which has not been classified within the other above mentioned categories.

Instead of a formal fund balance policy addressing the order in which unrestricted resources are to be used when amounts are available for expenditure, the Council uses the default approach allowed by Governmental Accounting Standards Board Statement No. 54. Committed amounts are reduced first, followed by assigned amounts, and then unassigned amounts. The Council does not expect to encounter an expenditure that could be applied to multiple fund balance accounts.

NOTE 2. CASH AND INVESTMENTS

Cash as of September 30, 2011 totaled \$478,433 and bank balances totaled \$1,052,617.

Amount insured by the FDIC	\$ 250,000
Amount collateralized with securities held by a Pledging institution's trust department or agent in the Council's name	802,617
Uncollateralized	-
Total	<u>\$1,052,617</u>

As of September 30, 2011, the Council had investments of \$88,825,907 held in repurchase agreements and money market mutual funds.

SOUTHWESTERN ILLINOIS FLOOD PREVENTION DISTRICT COUNCIL  
NOTES TO FINANCIAL STATEMENTS (CONT'D)  
SEPTEMBER 30, 2011

NOTE 2. CASH AND INVESTMENTS (CONT'D)

The Council's investment policy states that bond proceeds are to be invested into investment agreements that are collateralized with treasuries and agencies. Two and three year duration investments will be used for the bond reserve and 18 month duration investments will be used for the remaining bond proceeds.

A. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Council manages its exposure to interest rate risk is by purchasing shorter term investments as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the Council's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Council's investments by maturity.

	<u>Remaining Maturity (in months)</u>		
	<u>Total</u>	<u>18 months or less</u>	<u>18 months - 3 years</u>
Repurchase Agreements	\$85,030,816	78,836,392	\$6,194,424
Money Market Mutual Funds	<u>3,795,091</u>	<u>3,795,091</u>	<u>-</u>
Total	<u>\$88,825,907</u>	<u>82,631,483</u>	<u>\$6,194,424</u>

B. Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a financial institution, a government will not be able to recover its investments or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to the transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Council manages its exposure to custodial credit risk by investing in accounts secured by collateral.

SOUTHWESTERN ILLINOIS FLOOD PREVENTION DISTRICT COUNCIL  
NOTES TO FINANCIAL STATEMENTS (CONT'D)  
SEPTEMBER 30, 2011

NOTE 3. CAPITAL ASSETS

A summary of capital assets follows:

	<u>Balance</u> <u>September 30,</u> <u>2010</u>	<u>Current</u> <u>Year</u> <u>Additions</u>	<u>Current</u> <u>Year</u> <u>Deletions</u>	<u>Balance</u> <u>September 30,</u> <u>2011</u>
Capital Assets:				
Equipment	\$5,689	3,414	-	\$ 9,103
Furniture	279	760	-	1,039
Software	<u>1,584</u>	<u>630</u>	-	<u>2,214</u>
Subtotal	<u>\$7,552</u>	<u>4,804</u>	-	<u>\$12,356</u>
Accumulated Depreciation:				
Equipment	\$1,608	2,139	-	\$ 3,747
Furniture	33	77	-	110
Software	<u>467</u>	<u>697</u>	-	<u>1,164</u>
Subtotal	<u>\$2,108</u>	<u>2,913</u>	-	<u>\$ 5,021</u>
Net Capital Assets	<u>\$5,444</u>	<u>1,891</u>	-	<u>\$ 7,335</u>

Depreciation expense of \$2,913 was charged to the General and Administrative function of the primary government.

NOTE 4. LONG-TERM DEBT

Southwestern Illinois Development Authority on behalf of the Council issued \$94.195 million in revenue bonds providing approximately \$94.828 million for the costs of design and construction of improvements to levees and related facilities that protect large areas in Madison, St. Clair, and Monroe counties from flooding of the Mississippi River and certain tributaries. These bonds are payable from sales tax revenues from Madison, St. Clair, and Monroe County Flood Prevention Districts. \$59.145 million were issued as term bonds and \$35.050 million were issued as serial bonds.

Of the bonds issued, \$9.5 million are Build America Bonds and \$21.13 million are Recovery Zone Economic Development Bonds. The Council is to receive a direct federal subsidy payment from the U.S. Government for a portion of their borrowing costs equal to a percentage of the total coupon interest paid to investors. The Build America Bonds will receive a 35% interest subsidy and the Recovery Zone Economic Development bonds will receive a 45% interest subsidy.

SOUTHWESTERN ILLINOIS FLOOD PREVENTION DISTRICT COUNCIL  
NOTES TO FINANCIAL STATEMENTS (CONT'D)  
SEPTEMBER 30, 2011

NOTE 4. LONG-TERM DEBT (CONT'D)

Revenue bonds payable consist of the following:

	Balance September 30, <u>2010</u>	<u>Additions</u>	<u>Deductions</u>	Balance September 30, <u>2011</u>	Amount Due in <u>One Year</u>
Series A Bonds Dated November 23, 2010 2.00% to 5.00%, payable in varying amounts through 2030	\$ -	64,015,000	-	64,015,000	\$2,455,000
Series B Bonds Dated November 23, 2010 7.03%, payable April 15, 2032	-	9,050,000	-	9,050,000	-
Series C Bonds Dated November 23, 2010 7.23%, payable October 15, 2035	-	<u>21,130,000</u>	-	<u>21,130,000</u>	-
Total	<u>\$ -</u>	<u>94,195,000</u>	<u>-</u>	<u>94,195,000</u>	<u>\$2,455,000</u>

The following is a summary of the Council's future annual debt service requirements net of federal interest subsidy on long-term obligations:

Year Ending September 30:	<u>Principal</u>	<u>Interest</u>	<u>Subsidy</u>	<u>Total</u>
2012	\$ 2,455,000	4,646,539	(910,140)	\$ 6,191,399
2013	2,505,000	4,597,439	(910,140)	6,192,299
2014	2,555,000	4,547,339	(910,140)	6,192,199
2015	2,605,000	4,496,239	(910,140)	6,191,099
2016	2,685,000	4,418,089	(910,140)	6,192,949
2017-2021	15,265,000	20,244,295	(4,550,699)	30,958,596
2022-2026	14,325,000	17,243,420	(4,550,699)	27,017,721
2027-2031	21,620,000	12,896,395	(4,550,699)	29,965,696
2032-2036	<u>30,180,000</u>	<u>5,107,166</u>	<u>(1,814,189)</u>	<u>33,472,977</u>
	<u>\$94,195,000</u>	<u>78,196,921</u>	<u>(20,016,986)</u>	<u>\$152,374,935</u>

SOUTHWESTERN ILLINOIS FLOOD PREVENTION DISTRICT COUNCIL  
NOTES TO FINANCIAL STATEMENTS (CONT'D)  
SEPTEMBER 30, 2011

NOTE 5. FUND BALANCES

Governmental fund balances reported on the fund financial statements at September 30, 2011 include the following:

Nonspendable		
Prepaid Items	\$	3,423
Restricted		
Bond Reserve		6,194,424
Committed		4,354,016
Unassigned		<u>79,707,281</u>
		<u>\$90,259,144</u>

Restricted Funds:

The Council was required to fund a Bond Reserve. This reserve will be applied to the bonds' last payment as long as the bonds are not defaulted on. The Council has restricted \$6,194,424.

Committed Funds:

As of September 30, 2011, the Council is committed to the following contracts. These expenditures will be provided for by existing reserves.

<u>Contract</u>	<u>Remaining Commitment</u>
AMEC Earth and Environmental, Inc	\$4,161,139
Campion Group	6,977
Dorgan-McPike	21,000
East-West Gateway	143,300
LarsonAllen, LLP	<u>21,600</u>
Total	<u>\$4,354,016</u>

NOTE 6. SUBSEQUENT EVENTS

The effect of subsequent events on the financial statements has been evaluated through the report date, which is the date the financial statements were available to be issued.

SOUTHWESTERN ILLINOIS FLOOD PREVENTION DISTRICT COUNCIL  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL - GOVERNMENTAL FUND -  
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>ACTUAL</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		<u>OVER (UNDER)</u>
				<u>BUDGET</u>
<b>REVENUES:</b>				
Sales Tax Proceeds From Districts	\$ 10,510,886	10,510,886	11,506,734	995,848
Interest Income	335,060	335,060	700,357	365,297
Total Revenues	<u>10,845,946</u>	<u>10,845,946</u>	<u>12,207,091</u>	<u>1,361,145</u>
<b>EXPENDITURES:</b>				
Current:				
General and Administrative	243,555	243,555	227,565	(15,990)
Design and Construction	58,248,265	58,248,265	10,573,653	(47,674,612)
Professional Services	286,833	286,833	119,791	(167,042)
Reimbursement of County Advances	3,501,778	3,501,778	3,501,778	-
Capital Outlay:				
Equipment and Software	4,800	4,800	6,311	1,511
Debt Service:				
Interest	6,267,037	6,267,037	1,832,801	(4,434,236)
Less Federal Interest Subsidy	(1,279,886)	(1,279,886)	(814,069)	465,817
Bond Issuance Costs	1,152,000	1,152,000	1,325,272	173,272
Other Fiscal Charges	-	-	3,081	3,081
Total Expenditures	<u>68,424,382</u>	<u>68,424,382</u>	<u>16,776,183</u>	<u>(51,648,199)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(57,578,436)	(57,578,436)	(4,569,092)	53,009,344
<b>OTHER FINANCING SOURCES:</b>				
Proceeds from Bond Issuance	<u>84,268,762</u>	<u>84,268,762</u>	<u>94,828,236</u>	<u>10,559,474</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ 26,690,326</u>	<u>26,690,326</u>	90,259,144	<u>63,568,818</u>
<b>FUND BALANCE, BEGINNING OF YEAR</b>			-	
<b>FUND BALANCE, END OF YEAR</b>			<u>\$ 90,259,144</u>	

See accompanying notes to the basic financial statements.