

SOUTHWESTERN ILLINOIS FLOOD
PREVENTION DISTRICT COUNCIL

REPORT AND FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

SOUTHWESTERN ILLINOIS FLOOD PREVENTION DISTRICT COUNCIL
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INDEPENDENT AUDITOR'S REPORT

March 1, 2013

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, 2012, 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, 2012, 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.

To the Southwestern Illinois Flood
Prevention District Council

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 6 and 23 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.

Schepfl & Company P.C.

SOUTHWESTERN ILLINOIS FLOOD PREVENTION DISTRICT COUNCIL
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2012

This section of the Southwestern Illinois Flood Prevention District Council's (the Council) annual financial report offers a narrative overview and analysis of the financial activities during the fiscal year ended September 30, 2012. It should be read in conjunction with the Council's financial statements, which follow this section.

Southwestern Illinois Flood Prevention District Council's Overview

The formation of the Council was authorized by the Illinois Flood Prevention District Act (70 ILCS 750). The Council was formed in June of 2009 by an 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 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 2012.

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 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.

The fund-based financial statements consist of a series of statements that provide information about the Council's only governmental fund, the general fund.

Governmental fund financial statements are prepared using the current financial resources measurement focus and modified accrual basis of accounting. The statements consist of a balance sheet and statement of revenues, expenditures, and changes in fund balances.

The fund financial statements include reconciliations between the government-wide and fund financial statements because of the differences in basis of accounting. The differences are primarily in how capital assets and bonds are treated and the timing for recording some revenues and expenses.

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

Financial Highlights

Net assets as of September 30, 2012, were an overall deficit of (\$7,077,185), a decrease of \$1,519,697 compared to an overall deficit of (\$5,557,488) as of September 30, 2011, decreasing the Council's capital position.

Total assets and liabilities reflect the issuance of term and serial bonds in November 2010 to finance the levee improvements in the Illinois counties of Madison, St. Clair, and Monroe.

Condensed Statement of Net Assets (Compared to 2011)

	<u>2012</u>	<u>2011</u> <u>(Restated)</u>	<u>Difference</u>
Current Assets	\$ 81,363,192	\$ 85,390,717	\$ (4,027,525)
Noncurrent Assets	7,165,606	7,277,870	(112,264)
Total Assets	<u>\$ 88,528,798</u>	<u>\$ 92,668,587</u>	<u>\$ (4,139,789)</u>
Current Liabilities	\$ 6,201,734	\$ 6,167,632	\$ 34,102
Long-Term Liabilities	89,404,249	92,058,443	(2,654,194)
Total Liabilities	<u>\$ 95,605,983</u>	<u>\$ 98,226,075</u>	<u>\$ (2,620,092)</u>
Invested in Net Capital Assets	\$ 4,079	\$ 7,335	\$ (3,256)
Restricted	81,483,151	6,194,424	75,288,727
Unrestricted (Deficit)	(88,564,415)	(11,759,247)	(76,805,168)
Total Net Assets (Deficit)	<u>\$ (7,077,185)</u>	<u>\$ (5,557,488)</u>	<u>\$ (1,519,697)</u>
Total Liabilities and Net Assets	<u>\$ 88,528,798</u>	<u>\$ 92,668,587</u>	<u>\$ (4,139,789)</u>

Statement of Activities (Compared to 2011)

	<u>2012</u>	<u>2011</u> <u>(Restated)</u>	<u>Difference</u>
Revenues			
District Sales Tax	\$ 11,334,952	\$ 11,248,065	\$ 86,887
Less: Return of Excess Sales Tax to Districts	(5,260,222)	(5,104,425)	(155,797)
Sales Tax Billed to Districts	-	4,642,217	(4,642,217)
Interest Income	830,276	700,357	129,919
Total Revenues	<u>\$ 6,905,006</u>	<u>\$ 11,486,214</u>	<u>\$ (4,581,208)</u>
Expenses			
General and Administration	\$ 235,670	\$ 231,986	\$ 3,684
Design and Construction	4,345,573	10,573,653	(6,228,080)
Professional Services	167,141	119,791	47,350
Reimbursement of County Advances	-	3,501,778	(3,501,778)
Interest and Fiscal Charges (Net of Subsidy)	3,676,319	3,125,524	550,795
Total Expenses	<u>\$ 8,424,703</u>	<u>\$ 17,552,732</u>	<u>\$ (9,128,029)</u>
Change in Net Assets	\$ (1,519,697)	\$ (6,066,518)	\$ 4,546,821
Net Assets - Beginning of Year	(5,557,488)	509,030	(6,066,518)
Net Assets - End of Year	<u>\$ (7,077,185)</u>	<u>\$ (5,557,488)</u>	<u>\$ (1,519,697)</u>

Analysis of Financial Activities

Current assets decreased by \$4,027,525 due to expenditure of bond issue proceeds on design and construction activities and debt service payments on bonds.

Noncurrent assets decreased by \$112,264 from amortization of bond issuance costs to be over the life of the bonds.

Current liabilities reflect interest and principal payments due on the bonds payable and unpaid design and construction activities incurred through September 30, 2012.

Long-term liabilities decreased by \$2,654,194 reflecting the reduction in bonds payable and unamortized premium on the bonds.

District sales tax increased by \$86,887. These receipts represent the ¼ cent sales tax collected in Madison, St. Clair and Monroe County Flood Prevention Districts.

Under the terms of the series 2010 bond indenture, all flood prevention district sales tax is remitted to the bond trustee by the State of Illinois. After payment of principal, interest and other costs, any excess sales tax is sent by the trustee to the county flood prevention districts in an amount proportional to the sales tax collections in each county. This reimbursement totaled \$5,260,222 in FY2012.

Prior to the bond issue, sales tax was remitted by the State of Illinois to each county flood prevention district. The Council invoiced each county flood prevention district for its proportional share of expenses. In FY2011, the Council billed \$4,642,417 to the county flood prevention districts. Included in that amount was \$3,501,778 for the reimbursement of county advances as discussed below.

Interest income increased by \$129,919 from a full year of interest on the investments of the bond proceeds during the year.

Overall expenditures decreased by \$9,128,029. Design and construction costs for the levee improvements decreased by \$6,228,080 from 2011 in part because costly subsurface exploration was done in 2011 and the Council paid the Corps of Engineers to match federal funds for their projects in Wood River Drainage and Levee District in 2011. In addition, delays in the start of major construction activities due to regulatory requirements limited the expenses in FY2012. Also, in FY2011, the Council reimbursed Madison, St. Clair, and Monroe Counties a total of \$3,501,778 for design and construction expenditures made from their respective general funds on the project prior to the initiation of the flood prevention district sales tax in January 2009.

A prior period adjustment was recorded on the government-wide financial statements for 2011. The adjustment increased sales tax revenues by \$45,217, increased return of excess sales tax to districts by \$766,094, decreased accounts receivable by \$217,291, and decreased unrestricted net assets by \$217,291.

General Fund Budgetary Highlights

Actual General Fund revenues are \$729,439 below the final budget amount and actual expenditures are \$23,019,536 below the final budget. This amounts to \$22,290,097 excess of revenues over expenditures, actual compared to budget. The significant variance in budgeted revenues is mainly due to \$1,036,134 increase in return of excess sales tax to districts. The significant variance in budgeted expenditures is mainly due to delays in granting project permits, approvals, and permissions from regulatory agencies including the Illinois Environment Protection Agency and the U.S. Army Corps of Engineers. The project is still on track for completion by 2015, but disruptions in the anticipated schedule because of external factors such as regulatory, weather events, or high river elevations are a continuing risk.

Long-Term Debt

The Council issued \$94,195,000 of revenue bonds in fiscal year 2011. The maturity of the bonds varies from 2012 through 2035. See the accompanying financial statement notes for additional information related to outstanding debt.

Economic Conditions

The 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. Tax receipts grew at a modest pace in 2010 and 2011 (6% in 2010 and about 2% in 2011) but have remained largely unchanged in 2012. Completion of design of levee system improvements along the Mississippi river in the three counties is virtually complete, but the start of construction has been delayed by regulatory processes, particularly those imposed by the Corps of Engineers. Construction is expected to be well underway in the fourth quarter of FY2013 with completion remaining on track for late 2015. 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 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, 2012

	Governmental Activities
<u>ASSETS:</u>	
Current Assets:	
Cash and Investments	\$ 79,026,402
Accounts Receivable, Net	1,843,822
Interest Receivable	380,960
Prepaid Expenses	3,000
Deferred Charges - Bond Issuance Costs	109,008
Total Current Assets	\$ 81,363,192
Noncurrent Assets:	
Investments - Bond Reserve	\$ 6,194,424
Deferred Charges - Bond Issuance Costs (Net of Current Portion)	967,103
Capital Assets, Net of Accumulated Depreciation	4,079
Total Noncurrent Assets	\$ 7,165,606
Total Assets	\$ 88,528,798
<u>LIABILITIES AND NET ASSETS:</u>	
Current Liabilities:	
Accounts Payable and Accrued Interest	\$ 3,547,541
Bonds Payable	2,505,000
Unamortized Premium on Bond Issuance	149,193
Total Current Liabilities	\$ 6,201,734
Noncurrent Liabilities:	
Bonds Payable (Net of Current Portion)	\$ 89,235,000
Unamortized Premium on Bond Issuance (Net of Current Portion)	169,249
Total Noncurrent Liabilities	\$ 89,404,249
Total Liabilities	\$ 95,605,983
Net Assets:	
Invested in Capital Assets, Net of Related Debt	\$ 4,079
Restricted for:	
Capital Projects	74,347,521
Debt Service	941,206
Bond Reserve	6,194,424
Unrestricted (Deficit)	(88,564,415)
Total Net Assets (Deficit)	\$ (7,077,185)
Total Liabilities and Net Assets	\$ 88,528,798

See accompanying notes to the basic financial statements.

SOUTHWESTERN ILLINOIS FLOOD PREVENTION DISTRICT COUNCIL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2012

<u>Function/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets Primary Government</u>
		<u>Charges for Services</u>	<u>Operating Grants</u>	<u>Capital Grants</u>	<u>Total Governmental Activities</u>
Primary Government					
Governmental Activities:					
General and Administrative	\$ 235,670	\$ -	\$ -	\$ -	\$ (235,670)
Design and Construction	4,345,573	-	-	-	(4,345,573)
Professional Services	167,141	-	-	-	(167,141)
Interest (Net of Subsidy)	3,676,319	-	-	-	(3,676,319)
Total Governmental Activities	<u>\$ 8,424,703</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (8,424,703)</u>
General Revenues:					
District Sales Tax					\$ 11,334,952
Less: Return of Excess Sales Tax to Districts					(5,260,222)
Interest Income					830,276
Total General Revenues					<u>\$ 6,905,006</u>
Changes in Net Assets					
Net Assets - Beginning					(5,340,197)
Prior Period Adjustment					(217,291)
Net Assets (Deficit) - Ending					<u>\$ (7,077,185)</u>

See accompanying notes to the basic financial statements.

SOUTHWESTERN ILLINOIS FLOOD PREVENTION DISTRICT COUNCIL
BALANCE SHEET - GOVERNMENTAL FUND
SEPTEMBER 30, 2012

ASSETS

Cash and Investments	\$ 79,026,402
Accounts Receivable, Net	1,843,822
Interest Receivable	380,960
Prepaid Expenses	3,000
Bond Reserve	6,194,424
Total Assets	<u>\$ 87,448,608</u>

LIABILITIES AND FUND BALANCES

Liabilities:

Accounts Payable	\$ 1,438,277
Deferred Sales Tax Revenue	501,943
Total Liabilities	<u>\$ 1,940,220</u>

Fund Balances:

Nonspendable	\$ 3,000
Restricted	83,592,415
Unassigned	1,912,973
Total Fund Balances	<u>\$ 85,508,388</u>

Total Liabilities and Fund Balances	<u>\$ 87,448,608</u>
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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, 2012

Total governmental fund balances	\$ 85,508,388
Amounts reported for governmental activities in the statement of net assets are different because:	
Sales tax proceeds from districts (net of return of excess sales tax to districts) received more than sixty days after the end of the fiscal year are not financial resources and therefore are reported in the governmental funds as deferred revenue.	501,943
Capital assets used in the governmental activities are not financial resources and, therefore are not reported in the funds.	4,079
Bond issuance costs are expensed in the governmental funds but are required to be amortized over the life of the bond issuance.	1,076,111
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.	(318,442)
Interest on long-term debt is not accrued in governmental funds but rather is recognized as an expenditure when due.	(2,109,264)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(91,740,000)</u>
Net assets of governmental activities	<u>\$ (7,077,185)</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, 2012

REVENUES:

District Sales Tax	\$ 11,354,784
Less: Return of Excess Sales Tax to Districts	(5,233,194)
Interest Income	830,276
Total Revenues	<u>\$ 6,951,866</u>

EXPENDITURES:

Current:	
General and Administrative	\$ 232,414
Design and Construction	4,345,573
Professional Services	167,141
Debt Service:	
Principal	2,455,000
Interest	4,646,540
Less: Federal Interest Subsidy	(910,140)
Total Expenditures	<u>\$ 10,936,528</u>

NET CHANGE IN FUND BALANCE \$ (3,984,662)

FUND BALANCES:

Beginning of Year	90,259,144
Prior Period Adjustment	(766,094)
End of Year	<u>\$ 85,508,388</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, 2012

Net change in fund balance - total governmental funds	\$ (3,984,662)
Amounts reported for governmental activities in the statement of activities are different because:	
Sales tax proceeds from districts (net of return of excess sales tax to districts) received more than sixty days after the end of the fiscal year are reported as deferred revenue in the governmental funds. However, in the government-wide financial statements this is treated as revenues.	(46,860)
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 depreciation exceeded capital outlay in the current period.	(3,003)
Governmental funds report proceeds from sale of capital assets as other financing sources. However, in the statement of activities the net effect of the sale or disposal of capital assets is recorded as a gain (loss). This is the amount by which the gain (loss) exceeded proceeds in the current period.	(253)
Bond issuance costs are expensed in the governmental funds but are required to be amortized over the life of the bond issuance.	(129,154)
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.	165,736
Interest on long-term debt is not accrued in governmental funds but rather is recognized as an expenditure when due.	23,499
The repayment of long-term debt is reported as an expenditure when due in the governmental funds but as a reduction of principal outstanding in the statement of activities.	<u>2,455,000</u>
Change in net assets of governmental activities	<u>\$ (1,519,697)</u>

See accompanying notes to the basic financial statements.

SOUTHWESTERN ILLINOIS FLOOD PREVENTION DISTRICT COUNCIL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

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
SEPTEMBER 30, 2012

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:

SOUTHWESTERN ILLINOIS FLOOD PREVENTION DISTRICT COUNCIL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

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

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 modified accrual basis of accounting.

The budget for the Council was approved August 17, 2011.

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.

Investments are stated at fair value. All investments are repurchase agreements and money market mutual funds.

Receivables

All receivables are reported net of estimated return of excess sales tax to Districts and allowance for doubtful accounts. As of September 30, 2012, the Council's estimated return of excess sales tax to Districts and allowance for doubtful accounts was \$1,230,225 and \$-0-, respectively.

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: software (3 years), equipment (3-5 years), and furniture (10 years).

SOUTHWESTERN ILLINOIS FLOOD PREVENTION DISTRICT COUNCIL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

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
SEPTEMBER 30, 2012

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. As of September 30, 2012, the Council does not have committed funds.
- 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, 2012, 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 restricted and 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. Externally restricted amounts are reduced first, followed by committed amounts, followed by assigned amounts, and then unassigned amounts.

NOTE 2. CASH AND INVESTMENTS

Illinois Compiled Statutes authorize the Council to invest in interest-bearing savings accounts, certificates of deposit, other time deposits, obligations of savings and loan associations incorporated under the laws of Illinois or any other state or under the laws of the United States, obligations of the U.S. Treasury and U.S. government agencies, short-term obligations of the Federal National Mortgage Associations, and in short-term obligations of corporations organized in the United States with assets exceeding \$500 million if (i) such obligations are rated at the time of purchase at one of the three highest classifications established by at least two standard rating services and mature not later than 180 days from the date of purchase, (ii) such purchases do not exceed 10% of the corporation's outstanding obligations, and (iii) no more than 1/3 of the public agency's funds may be invested in short-term obligations of corporations.

SOUTHWESTERN ILLINOIS FLOOD PREVENTION DISTRICT COUNCIL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 2. CASH AND INVESTMENTS (CONT'D)

As of September 30, 2012, the carrying value of the Council's cash was \$234,128 and the total bank balances were \$828,258.

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		578,258
Uncollateralized		-
Total	\$	828,258

As of September 30, 2012, the Council had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Remaining Maturities</u>	
		<u>0-18 months</u>	<u>> 18 months</u>
Repurchase Agreements	\$ 80,797,513	\$ 74,603,089	\$ 6,194,424
Money Market Mutual Funds	4,189,185	4,189,185	-
Total	\$ 84,986,698	\$ 78,792,274	\$ 6,194,424

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.

B. Credit Risk

Credit risk is the risk that the security issuer or backer will not fulfill its obligations. The Council minimizes credit risk by prequalifying the financial institutions and advisors with which the District will do business. The Council diversifies the portfolio so that potential losses on individual securities will be minimized, but primarily invests in repurchase agreements of which the underlying securities are mainly comprised of U.S. Treasuries or agencies of the United States Government that are implicitly guaranteed by the United States Government. As of September 30, 2012, the Council's investments in the money market mutual funds were rated AAA-mf by Moody's and AAAM by Standard and Poor's.

SOUTHWESTERN ILLINOIS FLOOD PREVENTION DISTRICT COUNCIL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 2. CASH AND INVESTMENTS (CONT'D)

C. 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.

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. As of September 30, 2012, the \$80,797,513 in securities underlying the repurchase agreements were unsecured and held by the custodian's trust department, not in the name of the District.

NOTE 3. CAPITAL ASSETS

A summary of capital assets follows:

	<u>Beginning</u> <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balance</u>
Capital Assets:				
Equipment	\$ 9,103	\$ -	\$ 390	\$ 8,713
Furniture	1,039	-	291	748
Software	2,214	-	710	1,504
Subtotal	<u>\$ 12,356</u>	<u>\$ -</u>	<u>\$ 1,391</u>	<u>\$ 10,965</u>
Accumulated Depreciation:				
Equipment	\$ 3,747	\$ 2,209	\$ 389	\$ 5,567
Furniture	110	104	39	175
Software	1,164	690	710	1,144
Subtotal	<u>\$ 5,021</u>	<u>\$ 3,003</u>	<u>\$ 1,138</u>	<u>\$ 6,886</u>
Net Capital Assets	<u>\$ 7,335</u>	<u>\$ (3,003)</u>	<u>\$ 253</u>	<u>\$ 4,079</u>

Depreciation expense of \$3,003 was charged to the General and Administrative function of the primary government.

SOUTHWESTERN ILLINOIS FLOOD PREVENTION DISTRICT COUNCIL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 4. LONG-TERM DEBT

Southwestern Illinois Development Authority on behalf of the Council issued \$94.195 million in revenue bonds providing funds 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.

Revenue bonds payable consist of the following:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending</u> <u>Balance</u>	<u>Amount</u> <u>Due in</u> <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	\$ -	\$ 2,455,000	\$ 61,560,000	\$ 2,505,000
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	21,130,000	-	-	21,130,000	-
Total	<u>\$ 94,195,000</u>	<u>\$ -</u>	<u>\$ 2,455,000</u>	<u>\$ 91,740,000</u>	<u>\$ 2,505,000</u>

SOUTHWESTERN ILLINOIS FLOOD PREVENTION DISTRICT COUNCIL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

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

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

<u>Year Ending</u> <u>September 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Subsidy</u>	<u>Total</u>
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	2,820,000	4,283,839	(910,140)	6,193,699
2018-2022	15,825,000	19,683,720	(4,550,699)	30,958,021
2023-2027	19,015,000	16,496,570	(4,550,699)	30,960,871
2028-2032	13,550,000	11,737,316	(4,429,396)	20,857,920
2033-2036	<u>30,180,000</u>	<u>3,289,831</u>	<u>(1,025,352)</u>	<u>32,444,479</u>
Total	<u>\$ 91,740,000</u>	<u>\$ 73,550,382</u>	<u>\$ (19,106,846)</u>	<u>\$ 146,183,536</u>

NOTE 5. FUND BALANCES

Governmental fund balances reported on the fund financial statements at September 30, 2012 include the following:

Nonspendable	
Prepaid Expenses	\$ 3,000
Restricted	
Capital Projects	74,347,521
Debt Service	3,050,470
Bond Reserve	6,194,424
Unassigned	<u>1,912,973</u>
Total	<u>\$ 85,505,388</u>

NOTE 6. LEASING ARRANGEMENT

The Council has an office and meeting space and services lease with the Metro East Park and Recreation District. The lease expires on December 31, 2014, unless extended by the written consent of both parties. No rent will be charged by the Metro East Park and Recreation District for the office and meeting space. The Council agrees to pay any fees and expenses related to its use of the premises, including, but not limited to, the costs of cleaning and janitorial services, equipment use or rental, repairs or damages to the premises, insurance, utilities, postage, facsimile or copy costs and/or secretarial services.

SOUTHWESTERN ILLINOIS FLOOD PREVENTION DISTRICT COUNCIL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 7. PRIOR PERIOD ADJUSTMENT

The Council recorded a prior period adjustment on the government-wide financial statements of \$(217,291) for the following: (1) September 2011 sales tax proceeds from districts of \$931,850 received more than sixty days after the end of fiscal year 2011 and (2) July through September 2011 return of excess sales tax to Districts of \$(1,149,141) paid in fiscal year 2012.

The Council recorded a prior period adjustment on the fund financial statements of \$(766,094) for July through August 2011 return of excess sales tax to Districts paid in fiscal year 2012.

NOTE 8. 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.

On March 1, 2013, the President signed an Executive Order reducing the budgetary authority in accounts subject to sequestration. As a result, the Council's interest subsidiary on the Build America and Recovery Zone Economic Development Bonds is expected to be reduced by 8.7% unless future action is taken by Congress.

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, 2012

	<u>BUDGETED AMOUNTS</u>			<u>ACTUAL</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	<u>OVER (UNDER)</u>
				<u>BUDGET</u>
REVENUES:				
Sales Tax Proceeds From Districts	\$ 11,000,000	\$ 11,000,000	\$ 11,354,784	\$ 354,784
Less: Return of Excess Sales Tax to Districts	(4,197,060)	(4,197,060)	(5,233,194)	(1,036,134)
Interest Income	878,365	878,365	830,276	(48,089)
Total Revenues	<u>\$ 7,681,305</u>	<u>\$ 7,681,305</u>	<u>\$ 6,951,866</u>	<u>\$ (729,439)</u>
EXPENDITURES:				
Current:				
General and Administrative	\$ 235,635	\$ 235,635	\$ 232,414	\$ (3,221)
Design and Construction	27,260,000	27,260,000	4,345,573	(22,914,427)
Professional Services	260,529	260,529	167,141	(93,388)
Capital Outlay	2,600	2,600	-	(2,600)
Debt Service:				
Principal	2,455,000	2,455,000	2,455,000	-
Interest	4,652,440	4,652,440	4,646,540	(5,900)
Less: Federal Interest Subsidy	(910,140)	(910,140)	(910,140)	-
Total Expenditures	<u>\$ 33,956,064</u>	<u>\$ 33,956,064</u>	<u>\$ 10,936,528</u>	<u>\$ (23,019,536)</u>
NET CHANGE IN FUND BALANCE	<u><u>\$ (26,274,759)</u></u>	<u><u>\$ (26,274,759)</u></u>	<u><u>\$ (3,984,662)</u></u>	<u><u>\$ 22,290,097</u></u>
FUND BALANCE, BEGINNING OF YEAR			90,259,144	
PRIOR PERIOD ADJUSTMENT			(766,094)	
FUND BALANCE, END OF YEAR			<u><u>\$ 85,508,388</u></u>	

See accompanying notes to the basic financial statements.