

SOUTHWESTERN ILLINOIS FLOOD
PREVENTION DISTRICT COUNCIL

REPORT AND FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

SOUTHWESTERN ILLINOIS FLOOD PREVENTION DISTRICT COUNCIL
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ALTON EDWARDSVILLE BELLEVILLE HIGHLAND
JERSEYVILLE COLUMBIA CARROLLTON BARTELSON

INDEPENDENT AUDITOR'S REPORT

March 4, 2014

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, 2013, and the related notes to the financial statements, which collectively comprise the Council'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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion 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 from 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.

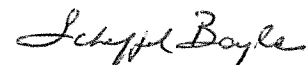
Opinion

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 the Southwestern Illinois Flood Prevention District Council, as of September 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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.



Edwardsville, Illinois

SOUTHWESTERN ILLINOIS FLOOD PREVENTION DISTRICT COUNCIL
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2013

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, 2013. 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 2013.

The statement of net position presents information on all of the assets and liabilities, with the difference between the two reported as net position. 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 position as of September 30, 2013, was an overall deficit of (\$8,838,185), a decrease of \$1,761,000 compared to an overall deficit of (\$7,077,185) as of September 30, 2012, 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 2012)

	<u>2013</u>	<u>2012</u>	<u>Difference</u>
Current Assets	\$ 77,178,498	\$ 81,363,192	\$ (4,184,694)
Noncurrent Assets	7,068,627	7,165,606	(96,979)
Total Assets	<u>\$ 84,247,125</u>	<u>\$ 88,528,798</u>	<u>\$ (4,281,673)</u>
Current Liabilities	\$ 6,375,129	\$ 6,201,734	\$ 173,395
Long-Term Liabilities	86,710,181	89,404,249	(2,694,068)
Total Liabilities	<u>\$ 93,085,310</u>	<u>\$ 95,605,983</u>	<u>\$ (2,520,673)</u>
Net Investment in Capital Assets	\$ 3,288	\$ 4,079	\$ (791)
Restricted	76,572,224	81,483,151	(4,910,927)
Unrestricted (Deficit)	(85,413,697)	(88,564,415)	3,150,718
Total Net Position (Deficit)	<u>\$ (8,838,185)</u>	<u>\$ (7,077,185)</u>	<u>\$ (1,761,000)</u>
Total Liabilities and Net Position	<u>\$ 84,247,125</u>	<u>\$ 88,528,798</u>	<u>\$ (4,281,673)</u>

Statement of Activities (Compared to 2012)

	<u>2013</u>	<u>2012</u>	<u>Difference</u>
Revenues			
District Sales Tax	\$ 11,082,764	\$ 11,334,952	\$ (252,188)
Less: Return of Excess Sales Tax to Districts	(4,109,580)	(5,260,222)	1,150,642
Interest Income	782,144	830,276	(48,132)
Total Revenues	<u>\$ 7,755,328</u>	<u>\$ 6,905,006</u>	<u>\$ 850,322</u>
Expenses			
General and Administration	\$ 271,516	\$ 235,670	\$ 35,846
Design and Construction	5,239,838	4,345,573	894,265
Professional Services	343,337	167,141	176,196
Interest and Fiscal Charges (Net of Subsidy)	3,661,637	3,676,319	(14,682)
Total Expenses	<u>\$ 9,516,328</u>	<u>\$ 8,424,703</u>	<u>\$ 1,091,625</u>
Change in Net Position	\$ (1,761,000)	\$ (1,519,697)	\$ (241,303)
Net Position (Deficit) - Beginning of Year	(7,077,185)	(5,557,488)	(1,519,697)
Net Position (Deficit) - End of Year	<u>\$ (8,838,185)</u>	<u>\$ (7,077,185)</u>	<u>\$ (1,761,000)</u>

Analysis of Financial Activities

Current assets decreased by \$4,184,694 due to expenditure of bond issue proceeds on design and construction activities and debt service payments on bonds.

Noncurrent assets decreased by \$96,979 due to amortization of bond issuance costs.

Current liabilities reflect interest and principal payments due on the bonds payable and unpaid design and construction activities incurred through September 30, 2013.

Long-term liabilities decreased by \$2,694,068 reflecting the reduction in bonds payable and unamortized premium on the bonds.

District sales tax decreased by \$252,188. 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 \$4,109,580 in FY2013.

Interest income decreased by \$48,132. This was the result of a reduction in investments from the debt service payments on the bonds.

Overall expenditures increased by \$1,091,625. Design and construction costs for the levee improvements increased by approximately \$894,000 from prior year due to increased design and construction management efforts and cost share funding with the Corps of Engineers on various levee projects. The remaining increase was mainly due to legal and consulting services relating to property acquisitions.

General Fund Budgetary Highlights

Actual General Fund revenues are \$1,252,769 above the final budget amount and actual expenditures are \$44,788,942 below the final budget. This amounts to \$46,041,711 excess of revenues over expenditures, actual compared to budget. The significant variance in budgeted revenues is mainly due to \$1,980,131 decrease in return of excess sales tax to districts as a result of increased construction expenditures. In addition, budgeted sales tax revenues decreased \$549,506 as a result of continued difficult economic conditions. The significant variance in budgeted expenditures is mainly due to delays in the start of construction of the projects and the continuing process of obtaining project permits, approvals, and permissions from regulatory agencies. 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 fell by approximately \$252,000 or 2.3% in fiscal year 2013. Completion of design of levee system improvements along the Mississippi river in the three counties is virtually complete. In the first quarter of fiscal year 2014, six of the remaining eight projects will be under construction. To control costs and continue its commitment to the local workforce, the Council has assumed responsibility for the construction of the last two projects. The design of these last two projects is being finalized for the Corps of Engineers 408 review. Completion of the project by the end of 2015 remains doable, but with little or no room for schedule slippage. We remain confident that the Council's financial position is strong to complete the overall project and provide the Council with additional financial capacity for future maintenance and capital improvements.

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 POSITION
SEPTEMBER 30, 2013

	Governmental Activities
<u>ASSETS:</u>	
Current Assets:	
Cash and Investments	\$ 75,058,406
Accounts Receivable, Net	1,659,365
Interest Receivable	360,796
Prepaid Expenses	3,743
Deferred Charges - Bond Issuance Costs	96,188
Total Current Assets	\$ 77,178,498
Noncurrent Assets:	
Investments - Bond Reserve	\$ 6,194,424
Deferred Charges - Bond Issuance Costs (Net of Current Portion)	870,915
Capital Assets, Net of Accumulated Depreciation	3,288
Total Noncurrent Assets	\$ 7,068,627
Total Assets	\$ 84,247,125
<u>LIABILITIES AND NET POSITION:</u>	
Current Liabilities:	
Accounts Payable and Accrued Interest	\$ 3,681,060
Bonds Payable	2,555,000
Unamortized Premium on Bond Issuance	139,069
Total Current Liabilities	\$ 6,375,129
Noncurrent Liabilities:	
Bonds Payable (Net of Current Portion)	\$ 86,680,000
Unamortized Premium on Bond Issuance (Net of Current Portion)	30,181
Total Noncurrent Liabilities	\$ 86,710,181
Total Liabilities	\$ 93,085,310
Net Position:	
Net Investment in Capital Assets	\$ 3,288
Restricted for:	
Capital Projects	69,502,628
Debt Service	875,172
Bond Reserve	6,194,424
Unrestricted (Deficit)	(85,413,697)
Total Net Position (Deficit)	\$ (8,838,185)
Total Liabilities and Net Position	\$ 84,247,125

See accompanying notes to the basic financial statements.

SOUTHWESTERN ILLINOIS FLOOD PREVENTION DISTRICT COUNCIL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2013

<u>Function/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants</u>	<u>Capital Grants</u>	<u>Total Governmental Activities</u>
Primary Governmental Activities:					
General and Administrative	\$ 271,516	\$ -	\$ -	\$ -	\$ (271,516)
Design and Construction	5,239,838	-	-	-	(5,239,838)
Professional Services	343,337	-	-	-	(343,337)
Interest (Net of Subsidy)	3,661,637	-	-	-	(3,661,637)
Total Governmental Activities	<u>\$ 9,516,328</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (9,516,328)</u>

General Revenues:	
District Sales Tax	\$ 11,082,764
Less: Return of Excess Sales Tax to Districts	(4,109,580)
Interest Income	782,144
Total General Revenues	<u>\$ 7,755,328</u>
Changes in Net Position	
Net Position (Deficit) - Beginning	\$ (1,761,000)
Net Position (Deficit) - Ending	<u>\$ (7,077,185)</u>
Net Position (Deficit) - Ending	<u>\$ (8,838,185)</u>

See accompanying notes to the basic financial statements.

SOUTHWESTERN ILLINOIS FLOOD PREVENTION DISTRICT COUNCIL
BALANCE SHEET - GOVERNMENTAL FUND
SEPTEMBER 30, 2013

ASSETS

Cash and Investments	\$ 75,058,406
Accounts Receivable, Net	1,659,365
Interest Receivable	360,796
Prepaid Expenses	3,743
Investments - Bond Reserve	6,194,424
Total Assets	<u>\$ 83,276,734</u>

LIABILITIES AND FUND BALANCES

Liabilities:

Accounts Payable	\$ 1,596,863
Deferred Sales Tax Revenue	549,301
Total Liabilities	<u>\$ 2,146,164</u>

Fund Balances:

Nonspendable	\$ 3,743
Restricted	78,656,422
Unassigned	2,470,405
Total Fund Balances	<u>\$ 81,130,570</u>

Total Liabilities and Fund Balances	<u>\$ 83,276,734</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 POSITION OF GOVERNMENTAL ACTIVITIES
SEPTEMBER 30, 2013

Total governmental fund balances	\$ 81,130,570
Amounts reported for governmental activities in the statement of net position 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.	549,301
Capital assets used in the governmental activities are not financial resources and, therefore are not reported in the funds.	3,288
Bond issuance costs are expensed in the governmental funds but are required to be amortized over the life of the bond issuance.	967,103
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.	(169,250)
Interest on long-term debt is not accrued in governmental funds but rather is recognized as an expenditure when due.	(2,084,197)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(89,235,000)</u>
Net position (deficit) of governmental activities	<u>\$ (8,838,185)</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, 2013

REVENUES:	
District Sales Tax	\$ 11,089,494
Less: Return of Excess Sales Tax to Districts	(4,163,668)
Interest Income	782,144
Total Revenues	<u>\$ 7,707,970</u>
EXPENDITURES:	
Current:	
General and Administrative	\$ 269,453
Design and Construction	5,239,836
Professional Services	343,337
Debt Service:	
Principal	2,505,000
Interest	4,597,439
Less: Federal Interest Subsidy	(870,549)
Capital Outlay	1,272
Total Expenditures	<u>\$ 12,085,788</u>
NET CHANGE IN FUND BALANCE	\$ (4,377,818)
FUND BALANCES:	
Beginning of Year	<u>85,508,388</u>
End of Year	<u>\$ 81,130,570</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, 2013

Net change in fund balance - total governmental funds	\$ (4,377,818)
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.	47,358
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 and loss on disposal of assets exceeded capital outlay in the current period.	(791)
Bond issuance costs are expensed in the governmental funds but are required to be amortized over the life of the bond issuance.	(109,008)
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.	149,192
Interest on long-term debt is not accrued in governmental funds but rather is recognized as an expenditure when due.	25,067
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>2,505,000</u>
Change in net position of governmental activities	<u>\$ (1,761,000)</u>

See accompanying notes to the basic financial statements.

SOUTHWESTERN ILLINOIS FLOOD PREVENTION DISTRICT COUNCIL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

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

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

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net position 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, 2013

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

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Fund Accounting

The accounts of the Council are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

Funds are classified into three categories: governmental, proprietary, and fiduciary. The Council does not have any proprietary and fiduciary funds.

Governmental Funds

Governmental funds are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies (special revenue funds), the acquisition or construction of general fixed assets (capital projects funds) and the servicing of debt (debt service funds). The general fund is used to account for all activities of the general government not accounted for in some other fund.

The Council reports the following major governmental funds:

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.

D. Measurement Focus and Basis of Accounting

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.

SOUTHWESTERN ILLINOIS FLOOD PREVENTION DISTRICT COUNCIL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

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

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.

E. 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 modified accrual basis of accounting.

The budget for the Council was approved August 15, 2012.

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.

F. 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.

G. 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.

H. Receivables

All receivables are reported net of estimated return of excess sales tax to Districts and allowance for doubtful accounts. As of September 30, 2013, the Council's estimated return of excess sales tax to Districts and allowance for doubtful accounts was \$1,067,961 and \$-0-, respectively.

SOUTHWESTERN ILLINOIS FLOOD PREVENTION DISTRICT COUNCIL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

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

I. 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).

J. 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.

K. Net Position

Net position is the difference between assets and liabilities. Net investment in capital assets is capital assets, less accumulated depreciation and any outstanding debt related to the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are legal limitations imposed on their use by Council legislation or external restrictions by other governments, creditors or grantors. When an expense is incurred for purposes for which both restricted and unrestricted net position is available, the Council applies the expense to restricted resources first.

L. Fund Balance

According to Government Accounting Standards, fund balances are to be classified into five major classifications; nonspendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance. Below are definitions of the differences and how these balances are reported:

SOUTHWESTERN ILLINOIS FLOOD PREVENTION DISTRICT COUNCIL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

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

Nonspendable Fund Balance - 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. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example inventories or prepaid amounts.

Restricted Fund Balance - 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.

Committed Fund Balance - 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. The Board of Directors through a formal action (ordinance or resolution) commits fund balance amounts for the Council. 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 that originally created the commitment. The Council does not have committed funds at September 30, 2013.

Assigned Fund Balance - Includes spendable fund balance amounts that are intended to be used for specific purposes that are not considered restricted or committed. Intent may be expressed by the Board of Directors itself to assign amounts to be used for specific purposes. The Council does not have assigned funds at September 30, 2013.

Unassigned Fund Balance - Includes residual positive fund balance within the general fund which has not been classified within the other above mentioned categories. Unassigned fund balance may also include negative balances for any other governmental fund if expenditures exceed amounts restricted, committed, or assigned for those purposes.

The Council had not adopted a fund balance spending policy at September 30, 2013. GASB Statement No. 54 set the default spending policy for fund balance as follows: expenditures are spent from restricted fund balances first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, unless there are legal requirements that prohibit doing this. When restricted fund balances are not available, the default policy considers expenditures to be spent from committed fund balance first, then assigned and then unassigned. Expenditures for a specifically identified purpose will act to reduce the specific classification of the fund balance that is identified.

SOUTHWESTERN ILLINOIS FLOOD PREVENTION DISTRICT COUNCIL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

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.

As of September 30, 2013, the carrying value of the Council's cash was \$1,013,444 and the total bank balances were \$1,759,255.

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	1,509,255
Uncollateralized	<u>-</u>
Total	<u>\$ 1,759,255</u>

As of September 30, 2013, the Council had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity Date</u>
Repurchase Agreements		
Branch Banking & Trust	\$ 69,884,381	03/31/14
Deutsche Bank Securities, Inc.	6,194,424	12/16/20
Money Market Mutual Funds	<u>4,160,581</u>	N/A
Total	<u>\$ 80,239,386</u>	

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.

SOUTHWESTERN ILLINOIS FLOOD PREVENTION DISTRICT COUNCIL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 2. CASH AND INVESTMENTS (CONT'D)

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, 2013, the Council's investments in the money market mutual funds were rated AAA-mf by Moody's and AAAM by Standard and Poor's.

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, 2013, the \$76,078,805 in securities underlying the repurchase agreements were uninsured 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	\$ 8,713	\$ -	\$ -	\$ 8,713
Furniture	748	1,166	-	1,914
Software	1,504	106	133	1,477
Subtotal	<u>\$ 10,965</u>	<u>\$ 1,272</u>	<u>\$ 133</u>	<u>\$ 12,104</u>
Accumulated Depreciation:				
Equipment	\$ 5,567	\$ -	\$ -	\$ 5,567
Furniture	175	1,719	-	1,894
Software	1,144	307	96	1,355
Subtotal	<u>\$ 6,886</u>	<u>\$ 2,026</u>	<u>\$ 96</u>	<u>\$ 8,816</u>
Net Capital Assets	<u>\$ 4,079</u>	<u>\$ (754)</u>	<u>\$ 37</u>	<u>\$ 3,288</u>

SOUTHWESTERN ILLINOIS FLOOD PREVENTION DISTRICT COUNCIL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 3. CAPITAL ASSETS (CONT'D)

Depreciation expense of \$2,026 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 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, \$9.05 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 receive a 35% interest subsidy and the Recovery Zone Economic Development bonds receive a 45% interest subsidy.

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 subsidy on the Build America and Recovery Zone Economic Development Bonds was reduced by 8.7%.

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	\$ 61,560,000	\$	-	\$	2,505,000	\$	\$ 59,055,000	\$	2,555,000
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>-</u>		<u>-</u>		<u>21,130,000</u>		<u>-</u>
Total	\$ <u>91,740,000</u>	\$	<u>-</u>	\$	<u>2,505,000</u>	\$	<u>89,235,000</u>	\$	<u>2,555,000</u>

SOUTHWESTERN ILLINOIS FLOOD PREVENTION DISTRICT COUNCIL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

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>
2014	\$ 2,555,000	\$ 4,547,339	\$ (830,958)	\$ 6,271,381
2015	2,605,000	4,496,239	(830,958)	6,270,281
2016	2,685,000	4,418,089	(830,958)	6,272,131
2017	2,820,000	4,283,839	(830,958)	6,272,881
2018	2,950,000	4,150,339	(830,958)	6,269,381
2019-2023	16,380,000	19,129,895	(4,154,788)	31,355,107
2024-2028	19,825,000	15,686,833	(4,154,788)	31,357,045
2029-2033	9,235,000	10,402,685	(3,809,695)	15,827,990
2034-2036	<u>30,180,000</u>	<u>1,837,685</u>	<u>(299,943)</u>	<u>31,717,742</u>
Total	<u>\$ 89,235,000</u>	<u>\$ 68,952,943</u>	<u>\$ (16,574,004)</u>	<u>\$ 141,613,939</u>

NOTE 5. FUND BALANCES

Governmental fund balances reported on the fund financial statements at September 30, 2013 include the following:

Nonspendable	
Prepaid Expenses	\$ 3,743
Restricted	
Capital Projects	69,502,628
Debt Service	2,959,370
Bond Reserve	6,194,424
Unassigned	<u>2,470,405</u>
Total	<u>\$ 81,130,570</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, 2013

NOTE 7. CONSTRUCTION COMMITMENTS

Outstanding construction commitments were approximately \$4,403,000 at September 30, 2013.

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.

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, 2013

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>ACTUAL OVER (UNDER) BUDGET</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
REVENUES:				
Sales Tax Proceeds From Districts	\$ 11,639,000	\$ 11,639,000	\$ 11,089,494	\$ (549,506)
Less: Return of Excess Sales Tax to Districts	(6,143,799)	(6,143,799)	(4,163,668)	1,980,131
Interest Income	960,000	960,000	782,144	(177,856)
Total Revenues	<u>\$ 6,455,201</u>	<u>\$ 6,455,201</u>	<u>\$ 7,707,970</u>	<u>\$ 1,252,769</u>
EXPENDITURES:				
Current:				
General and Administrative	\$ 254,901	\$ 254,901	\$ 269,453	\$ 14,552
Design and Construction	50,000,000	50,000,000	5,239,836	(44,760,164)
Professional Services	326,000	326,000	343,337	17,337
Debt Service:				
Principal	2,505,000	2,505,000	2,505,000	-
Interest	4,695,969	4,695,969	4,597,439	(98,530)
Less: Federal Interest Subsidy	(910,140)	(910,140)	(870,549)	39,591
Capital Outlay	3,000	3,000	1,272	(1,728)
Total Expenditures	<u>\$ 56,874,730</u>	<u>\$ 56,874,730</u>	<u>\$ 12,085,788</u>	<u>\$ (44,788,942)</u>
NET CHANGE IN FUND BALANCE	<u>\$ (50,419,529)</u>	<u>\$ (50,419,529)</u>	<u>\$ (4,377,818)</u>	<u>\$ 46,041,711</u>
FUND BALANCE, BEGINNING OF YEAR			<u>85,508,388</u>	
FUND BALANCE, END OF YEAR			<u>\$ 81,130,570</u>	

See accompanying notes to the basic financial statements.