

SANITARY DISTRICT OF DECATUR
Decatur, Illinois

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**
April 30, 2013 and 2012



CliftonLarsonAllen

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Independent Auditors' Report

Board of Trustees
Sanitary District of Decatur
Decatur, Illinois

Report on the Financial Statements

We have audited the accompanying financial statements of Sanitary District of Decatur, as of and for the year ended April 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' 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 auditors' 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 financial position of Sanitary District of Decatur as of April 30, 2013 and 2012, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

Previously issued financial statements for fiscal year 2012 have been restated for the correction of an error. See Note 14 which explains this restatement.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages III through VIII and schedules of funding progress on page 30 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.



Champaign, Illinois
November 11, 2013

SANITARY DISTRICT OF DECATUR MANAGEMENT'S DISCUSSION AND ANALYSIS

The Sanitary District of Decatur (District) is presenting the following discussion and analysis in order to provide an overall review of the District's financial activities for the fiscal years ended April 30, 2013 and 2012. We encourage readers to consider the information in conjunction with the District's financial statements and notes to the financial statements to enhance their understanding of the District's financial performance.

BACKGROUND INFORMATION

The Sanitary District of Decatur was organized under the Sanitary District Act of 1917. Currently, the District serves a population of roughly 88,500 in an area of approximately 30 square miles. For the years ended April 30, 2013 and 2012, respectively, approximately 31,882 and 31,540 customers were billed a user charge based on their water consumption, solids, ammonia, and oxygen demanding waste; with the exception of a few users which are billed on metered discharge rather than water purchased. Customers are divided into three categories: residential, commercial/domestic, and industrial. While residential customers are the largest group in number, the industrial customers account for about two-thirds of the District's user charges. A staff of 54 employees in 2013 and 58 employees in 2012 treated a maximum flow of 118.5 million gallons per day in 2013 and 91.7 million gallons per day in 2012; an average of 25.9 million gallons of wastewater a day in 2013 and 28.2 million gallons of wastewater a day in 2012. The plant is designed for 41 million gallons per day during dry weather flow and maximum capacity of 125 million gallons per day during wet weather events. The District continues to meet U.S. Environmental Protection Agency and Illinois Environmental Protection Agency permit requirements and regulations.

FINANCIAL HIGHLIGHTS

- During the fiscal year 2013, the District's net position increased \$1,095,545 representing an increase of 1.17%. During fiscal year 2012, the District's net position increased \$818,358, representing an increase of 0.88%.
- During the fiscal year 2012, the District started Phase II of the South Sludge Storage Lagoons Remediation Project. This remediation project consists of removing the sludge from the two lagoons on land currently leased from the Macon County Conservation District and restoring the land to match the surrounding area. The overall project is scheduled to be completed by 2015 and is being funded by an internal loan from the replacement fund structured like IEPA Revolving Loan Program loans.

SANITARY DISTRICT OF DECATUR MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS (CONTINUED)

- During fiscal year 2012 and 2013, the District completed the planned expansion of the sanitary sewer collection system to the Village of Oreana and Village of Argenta. In 2012 period, the Village of Oreana system was commissioned and the District began to collect for billable flow. Construction on the Village of Argenta system was completed in 2012 but the system was not commissioned until 2013. These projects will increase the District's user charge revenue. Both collection systems are being financed thru the IEPA Revolving Loan Program using American Recovery and Reinvestment Act funding. Although the IEPA Loan is amortized over 20 years the District will recover approximately 77% from Oreana and 72% from Argenta through Intergovernmental Cooperation Agreements over a period of 30 years. The District will own the pump stations and force mains and the Villages will own everything from the user hookups to the pump stations.

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's Discussion and Analysis serves as an introduction to, and should be read in conjunction with, the basic audited financial statements and supplementary information. The financial statements also include notes that explain in detail some of the information in the financial statements.

REQUIRED FINANCIAL STATEMENTS

The financial statements of the District report information about the District using accounting methods similar to those used by the private sector companies. These statements offer short and long-term information about the District's overall financial status.

The Statement of Net Position presents information on all of the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). It also provides the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. Over time, increases or decreases in the District's net position is one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, and new or changed government legislation.

**SANITARY DISTRICT OF DECATUR
MANAGEMENT'S DISCUSSION AND ANALYSIS**

REQUIRED FINANCIAL STATEMENTS (CONTINUED)

The revenue and expenses for each year are accounted for in the Statement of Revenues, Expenses, and Change in Net Position. This statement measures the success of the District's operations over each year and can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

FINANCIAL ANALYSIS OF THE DISTRICT

A summary, in thousands, of the District's Statements of Net Position are presented below.

	<u>FY 2013</u>	<u>FY 2012</u>	<u>Dollar Change</u>	<u>Total Percent Change</u>	<u>FY 2011</u>	<u>Dollar Change</u>	<u>Total Percent Change</u>
Current and Other							
Assets	\$ 44,071	\$ 39,871	\$ 4,200		\$ 38,886	\$ 985	
Capital Assets	81,791	85,799	(4,008)		80,002	5,797	
Total Assets	<u>125,862</u>	<u>125,670</u>	<u>192</u>	<u>.15%</u>	<u>118,888</u>	<u>6,782</u>	<u>5.70%</u>
Long-term Debt							
Outstanding	25,227	26,195	(968)		20,213	5,982	
Other Liabilities	5,525	5,461	64		5,479	(-18)	
Total Liabilities	<u>30,752</u>	<u>31,656</u>	<u>(904)</u>	<u>(2.85%)</u>	<u>25,692</u>	<u>5,964</u>	<u>23.21%</u>
Net Investment in							
Capital Assets	57,009	60,216	(3,207)		60,571	(355)	
Unrestricted	<u>38,101</u>	<u>33,798</u>	<u>4,303</u>		<u>32,625</u>	<u>1,173</u>	
Total Net Position	<u>\$ 95,110</u>	<u>\$ 94,014</u>	<u>\$ 1,096</u>	<u>1.16%</u>	<u>\$ 93,196</u>	<u>\$ 818</u>	<u>.87%</u>

For FY 2013 the increase in net position was due to assets increasing and liabilities decreasing.

Current and other assets for FY 2013 increased and capital position decreased as the District reclassified the Argenta Sanitary District Collection System from a capital position to a note receivable due to the fact that the Sanitary District of Decatur is only holding these assets as collateral for the repayment of the associated loan. Other liabilities increased in FY 2013 due to the Sanitary District receiving and recording a biomass to energy grant of \$500,000 from the Illinois DECO before the grant requirements were achieved.

**SANITARY DISTRICT OF DECATUR
MANAGEMENT'S DISCUSSION AND ANALYSIS**

FINANCIAL ANALYSIS OF THE DISTRICT (CONTINUED)

While the Statement of Net Position shows the change in financial position, the Statements of Revenue, Expenses, and Change in Net Position provides answers as to the nature and source of these changes. The table below reflects the past two years changes, in thousands.

	<u>FY 2013</u>	<u>FY 2012</u>	<u>Dollar Change</u>	<u>Total Percent Change</u>	<u>FY 2011</u>	<u>Dollar Change</u>	<u>Total Percent Change</u>
Operating Revenues	\$ 12,482	\$ 11,451	\$ 1,031		\$ 10,552	\$ 899	
Nonoperating Revenues	5,367	4,950	417		4,314	636	
Total Revenues	17,849	16,401	1,448	8.82%	14,866	1,535	10.32%
Operating Expense	11,401	10,899	502		11,097	(198)	
Depreciation Expense	3,361	3,148	213		2,892	256	
Nonoperating Expense	1,991	1,536	455		412	1,124	
Total Expenses	16,753	15,583	1,170	7.50%	14,401	1,182	8.20%
Changes in Net Position	1,096	818	278		465	353	
Beginning Net Position	94,014	93,196	818		92,731	465	
Total Net Position	\$ 95,110	\$ 94,014	\$ 1,096	1.16%	\$ 93,196	\$ 818	.87%

The major factors for FY 2013 which drove these results:

- The increase in operating revenues was mainly due to an increase in industrial user charges and penalties revenue.
- Operating expenses increase was due to an increase in personnel services related to an early retirement incentive offer, operations and maintenance expenses.
- Non-operating expense increase was primarily due to recording the contribution to the Argenta Sanitary District and Village of Oreana related pass-through grants.

The major factors for FY 2012 which drove these results:

- The largest part of the increase in operating revenues was due to the agreement with Tate & Lyle Bulk Ingredients Americas Inc. resulting in an in a new revenue source for waste trucked to the treatment plant and processed by the anaerobic digesters.
- Nonoperating revenue increased because of reimbursements from the state from the IEPA revolving loan program.
- Operating expenses show a decrease primarily because there were no expenses related to the potential reclaimed water pipeline.

SANITARY DISTRICT OF DECATUR MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL ASSETS

At the end of fiscal years 2013 and 2012, the District had \$81,791,250 and \$85,799,105 invested in capital assets (net of depreciation), respectively. As of April 30, 2013, the District had various contracts for construction projects and engineering projects with outstanding commitments totaling approximately \$2,552,268, which were at varying stages of completion. The District is obligated to pay the cost under these contracts as the work is completed.

For FY 2012 the increase in capital assets included Oreana pump stations, Stevens Creek interceptor lining, primary clarifier #3 mechanism replacement and south sludge lagoon dewatering facility.

For FY 2013 the increase in capital assets included the completion of the Trestle Rehab Eastside Booster pump station, Argenta pump station, and Berm Levee Wall.

DEBT ADMINISTRATION

As of April 30, 2013, the District has outstanding loans from the Illinois Revolving Loan in the amount of \$24,782,258 plus interest payable of \$1,548,712 of which the principal and interest due in the upcoming fiscal year are \$1,867,516 and \$307,828, respectively. As of April 30, 2012, the District has outstanding loans from the Illinois Revolving Loan Fund in the amount of \$25,583,160 plus interest payable of \$1,684,835. It is anticipated that the Revolving Loan Fund will be used to fund future projects.

BUDGETARY HIGHLIGHTS

The District adopts an annual combined budget following presentation to the Board of Trustees and public notification and a public hearing. These budgets outline the estimated expenditures and the means of financing them. The District's budget may be revised throughout the year, after Board approval.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The District considers many factors when setting the fiscal year budget, user fees and charges. User charge rates generally reflect inflationary pressure on salaries and related personnel expenses, supplies and utilities. Additional consideration is given to the amount of capital improvements and replacements needed for the current fiscal year.

Domestic, commercial and minor industrial classes generate approximately 30% of the billable flow. The District expects to continue to see a small decrease in this user class given the current economical conditions. The major industrial user class generates more than 70% of the billable flow. The Sanitary District's customers have been under various levels of water restrictions since October of 2011 due to unusual rainfall patterns. The reduced water supply results in lower billable flow and increased concentrations of the waste water processed. The large industrial customers have been making changes to their process including temporarily transferring production to facilities outside of Decatur to comply with the most stringent water restrictions. Continued water restrictions or permanent process relocation will have a significant impact to the District. However, the industries and the City of Decatur are implementing water supply improvements to increase storage capacity and add new ground water sources.

**SANITARY DISTRICT OF DECATUR
MANAGEMENT'S DISCUSSION AND ANALYSIS**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES (CONTINUED)

Domestic user charge rates are listed below:

	<u>FY 12/13</u>	<u>FY 11/12</u>	<u>FY 10/11</u>	<u>FY 09/10</u>
Cost per 100 cubic feet	\$ 1.03	\$ 0.94	\$ 0.85	\$ 0.82
Average annual costs per User's household	\$ 105.64	\$ 90.24	\$ 81.60	\$ 78.72

During the 2011 budget process the District developed a long range capital financing plan that calls for user fees to be increased by 9 cents per 100 cubic feet per year for through 2016. The additional revenue is being used as a dedicated funding source for the renewal of existing capital assets and fund debt service payments required for additional capital improvements.

DISTRICT CONTACT INFORMATION

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the funds it receives. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to Kent D. Newton, Director of Administration, Sanitary District of Decatur, 501 Dipper Lane, Decatur, Illinois 62522 or by telephone at (217) 442-6931, ext. 213, or by email at kentn@sdd.dst.il.us.

**SANITARY DISTRICT OF DECATUR
STATEMENTS OF NET POSITION
April 30, 2013 and 2012**

ASSETS

	<u>2013</u>	<u>2012</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 11,094,428	\$ 16,315,842
Investments	16,945,667	13,468,783
Receivables, net	5,880,255	5,269,670
Prepaid expenses	167,541	69,964
Due from City of Decatur/Village of Forsyth, current portion	130,571	204,398
Notes receivable - Village of Oreana, current portion	137,803	-
Notes receivable - Argenta Sanitary District, current portion	<u>78,486</u>	<u>-</u>
Total current assets	<u>34,434,751</u>	<u>35,328,657</u>
CAPITAL ASSETS, net of accumulated depreciation	<u>81,791,250</u>	<u>85,799,105</u>
LONG-TERM RECEIVABLES		
Due from City of Decatur/Village of Forsyth, less current portion above	314,060	407,746
Notes receivable - Village of Oreana, less current portion above	3,996,300	4,134,103
Notes receivable - Argenta Sanitary District, less current portion above	<u>5,325,323</u>	<u>-</u>
Total long-term receivables	<u>9,635,683</u>	<u>4,541,849</u>
TOTAL ASSETS	<u>\$ 125,861,684</u>	<u>\$ 125,669,611</u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable, including retainage of \$626,542 and \$666,045, respectively	\$ 1,256,276	\$ 1,899,306
Accrued expenses	461,181	524,636
Unearned income - real estate taxes	3,307,407	3,035,979
Other unearned income	500,000	-
Notes payable, current maturities	1,867,516	1,749,367
Notes payable, City of Decatur/Village of Forsyth, current maturities	<u>130,571</u>	<u>204,398</u>
Total current liabilities	<u>7,522,951</u>	<u>7,413,686</u>
LONG-TERM LIABILITIES		
Notes payable, less current maturities above	22,914,742	23,833,793
Notes and interest payable - City of Decatur/Village of Forsyth, less current maturities above	<u>314,060</u>	<u>407,746</u>
Total long-term liabilities	<u>23,228,802</u>	<u>24,241,539</u>
Total liabilities	<u>30,751,753</u>	<u>31,655,225</u>
NET POSITION		
Net investment in capital assets	57,008,992	60,215,945
Unrestricted	<u>38,100,939</u>	<u>33,798,441</u>
Total net position	<u>95,109,931</u>	<u>94,014,386</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 125,861,684</u>	<u>\$ 125,669,611</u>

The accompanying notes are an integral part of the financial statements.

SANITARY DISTRICT OF DECATUR
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Years Ended April 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
OPERATING REVENUES		
Industrial user charges and penalties	\$ 8,248,740	\$ 7,417,612
User charges	3,623,217	3,556,740
Annexations	391,784	264,513
Pump stations	97,358	97,062
Miscellaneous	<u>121,203</u>	<u>115,350</u>
 Total operating revenues	 <u>12,482,302</u>	 <u>11,451,277</u>
OPERATING EXPENSES		
Personnel services	5,287,624	4,994,888
Operations and maintenance	4,172,615	3,842,454
Building and grounds	335,287	166,363
Contractual/outside services	692,761	522,417
Depreciation expense	3,360,810	3,148,376
General and administrative expenses	<u>912,302</u>	<u>1,372,394</u>
 Total operating expenses	 <u>14,761,399</u>	 <u>14,046,892</u>
 Operating loss	 <u>(2,279,097)</u>	 <u>(2,595,615)</u>
NONOPERATING REVENUES (EXPENSES)		
Property taxes	2,988,146	2,901,183
Replacement taxes	374,792	354,113
State funding	1,786,704	1,535,801
Investment income	216,439	158,690
Interest expense	(474,842)	(361,671)
Loss on disposal of assets	(64,800)	-
Bad debt expense	-	(9,712)
Contribution to Argenta Sanitary District /Village of Oreana	<u>(1,451,797)</u>	<u>(1,164,431)</u>
 Total nonoperating revenues	 <u>3,374,642</u>	 <u>3,413,973</u>
 CHANGE IN NET POSITION, AS RESTATED FOR 2012	 1,095,545	 818,358
 NET POSITION, BEGINNING OF YEAR	 <u>94,014,386</u>	 <u>93,196,028</u>
 NET POSITION, END OF YEAR	 <u>\$ 95,109,931</u>	 <u>\$ 94,014,386</u>

The accompanying notes are an integral part of the financial statements.

**SANITARY DISTRICT OF DECATUR
STATEMENTS OF CASH FLOWS
Years Ended April 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers and users	\$ 12,154,003	\$ 10,772,996
Payments to suppliers	(6,853,572)	(6,128,527)
Payments to employees	<u>(5,369,801)</u>	<u>(4,989,270)</u>
Net cash used in operating activities	<u>(69,370)</u>	<u>(344,801)</u>
CASH FLOWS PROVIDED BY NONCAPITAL FINANCING ACTIVITIES		
Property tax receipts	2,988,146	2,901,183
Replacement tax receipts	<u>352,218</u>	<u>355,258</u>
Net cash provided by noncapital financing activities	<u>3,340,364</u>	<u>3,256,441</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(6,250,787)	(14,023,296)
Principal payments on notes payable	(1,783,441)	(1,598,207)
State funding	892,308	1,535,801
Proceeds from notes payable	2,376,935	7,749,807
Interest paid on notes payable	<u>(456,120)</u>	<u>(368,040)</u>
Net cash used in capital and related financing activities	<u>(5,221,105)</u>	<u>(6,703,935)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale and maturity of investments	9,038,243	20,039,560
Purchase of investments	(12,515,127)	(15,305,504)
Interest income received	<u>205,581</u>	<u>144,808</u>
Net cash provided by (used in) investing activities	<u>(3,271,303)</u>	<u>4,878,864</u>
Net increase (decrease) in cash and cash equivalents	(5,221,414)	1,086,569
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>16,315,842</u>	<u>15,229,273</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 11,094,428</u>	<u>\$ 16,315,842</u>

	<u>2013</u>	<u>2012</u>
RECONCILIATION OF OPERATING LOSS TO		
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Net operating loss	\$ (2,279,097)	\$ (2,595,615)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation	3,360,810	3,148,376
Effects of changes in operating assets and liabilities:		
Receivables	(328,299)	(678,281)
Prepaid expenses	(97,577)	(62,737)
Accounts payable	(643,030)	(162,162)
Accrued expenses	(82,177)	5,618
	<u> </u>	<u> </u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ (69,370)	\$ (344,801)

The accompanying notes are an integral part of the financial statements.

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2013 and 2012**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Sanitary District of Decatur ("District") was incorporated in 1917 under the provisions of the Sanitary District Act for the purpose of providing wastewater services to a geographic area which includes Decatur and annexed areas surrounding the city. Revenues are generated from wastewater services provided for the constituents of the District supplemented by real estate taxes, investment earnings, and an allocated portion of State of Illinois replacement taxes.

REPORTING ENTITY

In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in the *Codification of Governmental Accounting and Financial Reporting Standards*, Section 2100. The financial reporting entity consists of (a) the primary government, the Sanitary District of Decatur, which has a separately appointed governing body, is legally separate and fiscally independent of other state and local governments, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The District is an independent special purpose government in that it has the authority to determine its budget, set rates or levy taxes, and issue bonded debt without approval by another government.

There are no component units of the Sanitary District of Decatur nor is the Sanitary District of Decatur dependent on any other entity.

FINANCIAL STATEMENT PRESENTATION AND BASIS OF ACCOUNTING

The District operates as a proprietary fund in which the intent of the District is to recover its operating costs, including depreciation, through the use of industrial and residential user charges and tax levies within. Within this fund, the District maintains sub-funds to account for specific resources and expenditures. The accounting records of the District are maintained on the cash method of reporting revenue and expenditures, and are adjusted at year end to the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

The District recognizes user charge revenues when the service is provided. Monthly cycle billing is utilized for industrial users; residential and small commercial customers are billed on quarterly cycles. Unbilled receivables have been estimated at April 30. User charge rates are intended to generate revenues equivalent to estimated operating and replacement costs.

State of Illinois replacement taxes are recognized as revenue when the underlying exchange transaction has occurred.

Permit income and other miscellaneous revenues are recorded as revenues when received because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are measurable and available. Charges for services are recognized when the service is performed as they are measurable and available.

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2013 and 2012**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

USE OF ESTIMATES

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

CASH AND CASH EQUIVALENTS

For the purposes of the statement of cash flows, all short-term investments with a maturity at the date of purchase of three months or less are considered to be cash equivalents.

INVESTMENTS

Investments are stated at cost, which approximates fair value, and are composed of certificates of deposit, corporate debt, U.S. treasury notes and mutual funds. The types of investments allowed are regulated by Illinois State laws and include municipal bonds, U.S. Government or Illinois obligations, insured deposits or other investments of state or national banks, Federal National Mortgage Association obligations, Public Treasurer's Investment Pool and agreements collateralized by securities or mortgages in an amount at least equal to the market value of the funds deposited.

USER CHARGES RECEIVABLE

User charges receivable include both billed and unbilled services for residential and industrial customers in the Decatur area. The receivables are uncollateralized customer obligations which generally require payment within twenty days from the invoice date. Accounts receivable are stated at the invoice amount plus delinquency fees.

Account balances with invoices over twenty days old are considered delinquent and charged a 5% late fee. The District has the right to file a lien against the property. Payments of accounts receivable are applied to the specific invoices identified on the customer's remittance advice or, if unspecified, to the earliest unpaid invoices.

The carrying amount of accounts receivable is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected. The allowance for doubtful accounts is based on management's assessment of the collectability of specific customer accounts and the aging of the accounts receivable. If there is a deterioration of a major customer's credit worthiness or actual defaults are higher than the historical experience, management's estimates of the recoverability of amounts due the District could be adversely affected. All accounts or portions thereof deemed to be uncollectible, or to require an excessive collection cost, are written off to bad debt expense.

SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2013 and 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CAPITAL ASSETS

Capital assets are defined by the District as assets with an initial cost equal to or more than \$5,000. Land, buildings, improvements, infrastructure, and machinery and equipment acquired or constructed prior to May 1, 2002 are valued at estimated cost. All other additions since this date are valued at historical cost. Depreciation is provided using the straight-line method over the following estimated useful lives:

Land	Nondepreciable
Land improvements	8-50 years
Buildings and improvements	15-50 years
Infrastructure	50 years
Machinery and equipment	5-15 years
Vehicles	8 years

Work in progress includes costs incurred for various additions, improvements and modifications to existing capital assets during the year for which the project was incomplete at year end. Depreciation is not provided until the project is completed and placed in service.

COMPENSATED ABSENCES

District personnel earn vacation time in varying amounts depending on length of service with the District. Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees. In accordance with accounting standards, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

PROPERTY TAXES

Property taxes attach as an enforceable lien on all assessable real property located within the boundaries of the District as of each January 1. Taxes are levied on or about May 1 and payable in two installments on or about June 1 and September 1. The County of Macon bills and collects the taxes for the District, and the District receives significant property tax distributions during the months of June, July, and September.

At year end, the District records a receivable for property taxes levied and records deferred revenue for the full amount to match the revenue recording with the period in which the monies will actually be received and used. The receivable and deferral are recorded at 99% of the levy as history has shown that 99% or more of the levy is collected.

NEW ACCOUNTING STANDARD

The District implemented GASBS 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which provides guidance on reporting deferred outflows and inflows of resources. It also renames the residual of all other amounts presented in the balance sheets from "net assets" to "net position." The financial statements include the balance sheet, which reports all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Adoption of future GASB standards will include reporting of some items previously reported as assets and liabilities as deferred outflows and inflows of resources.

SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2013 and 2012

NOTE 2 - DEPOSITS AND INVESTMENTS

The District has adopted a formal investment policy approved by the Board of Trustees and Management. The District is authorized by its policy to make deposits or investments in a manner which will provide the maximum security at the highest investment return while meeting the daily cash flow demands of the District and conforming to all state and local statutes and ordinances governing the investment of public funds. The investment policy applies to all financial assets of the District. The District may invest in any type of security allowed by Illinois law, including savings accounts, money market accounts, commercial paper, State Treasurer's Investment Pool (The Illinois Funds), money market mutual funds, repurchase agreement, certificates of deposit and time Deposits constituting direct obligations of any bank as defined by the Illinois Banking Act and only those insured by the FDIC; bonds, notes and obligations guaranteed by the full faith and credit of the United States as to principal and interest.

The District's deposits, including certificates of deposit, were fully insured or collateralized as required by state statutes at April 30, 2013. At year end 2013 the carrying value of the District's deposits including certificates of deposit and cash were \$12,276,696 and the respective bank balances totaled \$12,825,037. At year end 2012 the bank balances of the District's deposits including money market and certificates of deposits were \$23,205,319 and \$23,313,006, respectively.

Interest Rate Risk - the risk that the market value of securities in the portfolio will fall due to changes in market interest rates. The District will minimize interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity. By investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools and limiting the average maturity of the portfolio in accordance with this policy the District will also minimize interest rate risk. The District's formal investment policy states the portfolio shall remain sufficiently liquid to meet all operating costs which may be reasonably anticipated. Portfolios are structured so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). The portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). A portion of the portfolio may be placed in money market mutual funds or local government investment pools which offer same-day liquidity for short-term funds.

Credit Risk - the risk that an issuer or other counter party to an investment will not fulfill its obligation. The standard of prudence to be used by the District shall be the "prudent person" standard which states:

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the possible income to be derived.

The above standard is established as the standard for professional responsibility and shall be applied in the context of managing the District's overall portfolio.

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2013 and 2012**

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

The District's investments in U.S. treasury notes of \$8,006,095 and \$3,244,572 at April 30, 2013 and 2012, respectively, were rated Aaa by Moody's Investors Service; of the District's mutual funds, \$112,411 and \$112,476 at April 30, 2013 and 2012, respectively, were rated Aaa by Moody's Investors Service. The remaining mutual funds and corporate debt were not rated.

Custodial Credit Risk - Deposits and Certificates of Deposit – the risk that a government will not be able to cover deposits if the depository financial institution fails or will not be able to recover collateral securities that are in the possession of an outside party. It is the policy of the District to require that time deposits in excess of FDIC or other federal insurable limits be secured by some form of collateral to protect public deposits in a single situation if it were to default due to poor management or economic factors. As of April 30, 2013, the District's bank deposits were fully collateralized.

As of April 30, 2013, the District had the following investments:

Investment Type	Fair Value	Investment Maturities (in years)			
		Less Than 1	1-5	6-10	More Than 10
Certificates of deposit	\$ 4,300,000	\$ 4,300,000	\$ -	\$ -	\$ -
Corporate debt	4,638,716	1,421,949	3,216,767	-	-
Mutual funds	3,117,732	3,117,732	-	-	-
US treasury notes	<u>8,006,095</u>	<u>-</u>	<u>3,440,200</u>	<u>4,565,895</u>	<u>-</u>
Total	<u>\$ 20,062,543</u>	<u>\$ 8,839,681</u>	<u>\$ 6,656,967</u>	<u>\$ 4,565,895</u>	<u>\$ -</u>

Below is a reconciliation of the above table to the Statement of Net Position for fiscal year ended 2013:

Total from investment table	\$ 20,062,543
Less mutual funds in cash equivalents on Statement of Net Position	<u>(3,117,732)</u>
Total investments on Statement of Net Position	<u>\$ 16,945,667</u>

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2013 and 2012**

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

As of April 30, 2012, the District had the following investments:

Investment Type	Fair Value	Investment Maturities (in years)			
		Less Than 1	1-5	6-10	More Than 10
Certificates of deposit	\$ 8,303,242	\$ 8,303,242	\$ -	\$ -	\$ -
Corporate debt	1,920,969	490,203	1,430,766	-	-
Mutual funds	1,411,593	1,411,593	-	-	-
US treasury notes	<u>3,244,572</u>	<u>-</u>	<u>1,600,392</u>	<u>1,644,180</u>	<u>-</u>
Total	<u>\$ 14,880,376</u>	<u>\$ 10,205,038</u>	<u>\$ 3,031,158</u>	<u>\$ 1,644,180</u>	<u>\$ -</u>

Below is a reconciliation of the above table to the Statement of Net Position for fiscal year ended 2012:

Total from investment table	\$ 14,880,376
Less mutual funds in cash equivalents on Statement of Net Position	<u>(1,411,593)</u>
Total investments on Statement of Net Position	<u>\$ 13,468,783</u>

The District invests in various investment securities. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect account balances and the amounts reported in the Statement of Net Position.

NOTE 3 - RECEIVABLES

Receivables are summarized as follows:

	<u>2013</u>	<u>2013</u>
Property tax receivable	\$ 3,307,407	\$ 3,035,979
Replacement tax receivable	75,105	52,531
Interest receivable	46,348	35,490
Billed user charges, net allowance of doubtful accounts of \$52,997 in 2013 and 2012	157,889	184,952
Unbilled user charges	448,365	323,732
Industrial user charges	<u>1,845,141</u>	<u>1,636,986</u>
Total	<u>\$ 5,880,255</u>	<u>\$ 5,269,670</u>

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2013 and 2012**

NOTE 4 - MAJOR CUSTOMERS

Generally accepted accounting principles require disclosure of information about current vulnerabilities due to certain concentrations. Approximately 81% and 76% of the District's operating revenues for the years ended April 30, 2013 and 2012, respectively, were from two industrial customers. The accounts receivable from these two customers totaled \$1,720,786 and \$1,547,564 at April 30, 2013 and 2012, respectively.

NOTE 5 - CAPITAL ASSETS

Following is a summary of changes in capital assets and related depreciation for fiscal year ended April 30, 2013.

	<u>Balance</u> <u>April 30, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>April 30, 2013</u>
Capital assets, not being depreciated:				
Land	\$ 2,887,252	\$ 48,741	\$ -	\$ 2,935,993
Work in progress	<u>12,181,929</u>	<u>2,216,335</u>	<u>12,018,629</u>	<u>2,379,635</u>
Total capital assets not being depreciated	<u>15,069,181</u>	<u>\$ 2,265,076</u>	<u>\$ 12,018,629</u>	<u>5,315,628</u>
Capital assets being depreciated:				
Buildings and improvements	63,866,574	\$ 930,944	\$ 144,000	64,653,518
Infrastructure	65,562,234	4,150,526	-	69,712,760
Machinery and equipment	55,823,165	2,561,429	216,842	58,167,752
Vehicles	2,783,687	87,679	82,864	2,788,502
Land improvements	<u>3,821,524</u>	<u>1,440,730</u>	<u>-</u>	<u>5,262,254</u>
Total capital assets being depreciated	<u>191,857,184</u>	<u>\$ 9,171,308</u>	<u>\$ 443,706</u>	<u>200,584,786</u>
Less accumulated depreciation:	<u>121,127,260</u>	<u>\$ 3,360,810</u>	<u>\$ 378,906</u>	<u>124,109,164</u>
Capital assets, net	<u>\$ 85,799,105</u>			<u>\$ 81,791,250</u>

Decreases in work in progress include costs of \$6,568,822 that related to Argenta Sanitary District Collection System that were reclassified Notes Receivable (see Note 6).

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2013 and 2012**

NOTE 5 - CAPITAL ASSETS (CONTINUED)

Following is a summary of changes in capital assets and related depreciation for fiscal year ended April 30, 2012.

	<u>Balance</u> <u>April 30, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>April 30, 2012</u>
Capital assets, not being depreciated:				
Land	\$ 2,700,252	\$ 187,000	\$ -	\$ 2,887,252
Work in progress	<u>12,210,723</u>	<u>10,267,578</u>	<u>10,296,372</u>	<u>12,181,929</u>
Total capital assets not being depreciated	<u>14,910,975</u>	<u>\$ 10,454,578</u>	<u>\$ 10,296,372</u>	<u>15,069,181</u>
Capital assets being depreciated:				
Buildings and improvements	63,796,387	\$ 70,187	\$ -	63,866,574
Infrastructure	58,018,677	7,543,557	-	65,562,234
Machinery and equipment	54,979,555	1,025,720	182,110	55,823,165
Vehicles	3,052,687	-	269,000	2,783,687
Land improvements	<u>3,673,669</u>	<u>147,855</u>	<u>-</u>	<u>3,821,524</u>
Total capital assets being depreciated	<u>183,520,975</u>	<u>\$ 8,787,319</u>	<u>\$ 451,110</u>	<u>191,857,184</u>
Less accumulated depreciation:	<u>118,429,994</u>	<u>\$ 3,148,376</u>	<u>\$ 451,110</u>	<u>121,127,260</u>
Capital assets, net	<u>\$ 80,001,956</u>			<u>\$ 85,799,105</u>

Decreases in work in progress include costs of \$5,077,771 that related to Village of Oreana Collection System that were reclassified to Notes Receivable (see Note 6).

Work in progress at April 30, 2013 consists of the following projects:

Biogas Co-Generation Replacement Project	\$ 109,056
Digester Facility	128,035
Digester Facility Mixers	172,515
Energy Efficiency Project	<u>1,970,029</u>
Total	<u>\$ 2,379,635</u>

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2013 and 2012**

NOTE 5 - CAPITAL ASSETS (CONTINUED)

Work in progress at April 30, 2012 consists of the following projects:

Argenta Project	\$ 6,929,645
APG Blower Pad #2 and #6	1,036,471
Berm Levee Project	1,105,074
Digester Facility	128,035
Digester Facility Mixers	35,267
Eastside Booster	28,455
Eastside Booster Pump Station	609,502
Process Monitor Video System	47,941
Trestle Repairs Project	<u>2,261,539</u>
Total	<u>\$ 12,181,929</u>

NOTE 6 - NOTES RECEIVABLE

Village of Oreana

The District financed the construction of a joint wastewater system for the Village of Oreana (Village). The Village's cost of the construction was \$5,077,771, less \$1,164,431 of loan forgiveness related to a grant received by the District, for a net amount due from the Village of \$3,913,340. In addition, related to this project, the Village owes the District \$220,763 in annexation fees. The agreement calls for the above items to be repaid to the District over a 30 year period, at a 0% interest rate, and is expected to commence in fiscal year 2014. Following are the expected maturities on the notes receivable:

Year ended April 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 137,803	\$ -	\$ 137,803
2015	137,803	-	137,803
2016	137,803	-	137,803
2017	137,803	-	137,803
2018	137,803	-	137,803
2019-2023	689,015	-	689,015
2024-2028	689,015	-	689,015
2029-2033	689,015	-	689,015
2034-2038	689,015	-	689,015
2039-2043	<u>689,028</u>	<u>-</u>	<u>689,028</u>
Total	<u>\$4,134,103</u>	<u>\$ -</u>	<u>\$4,134,103</u>

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2013 and 2012**

NOTE 6 - NOTES RECEIVABLE

Argenta Sanitary District

The District financed the construction of a joint wastewater system for the Argenta Sanitary District (ASD). ASD's cost of the construction was \$6,568,822, less \$1,451,797 of loan forgiveness related to a grant received by the District, for a net amount due from ASD of \$5,117,025. In addition, related to this project, the ASD owes the District \$286,784 in annexation fees. The agreement calls for the above items to be repaid to the District over a 30 year period, at a 1.25% interest rate, and is expected to commence in fiscal year 2014. Following are the expected maturities on the notes receivable:

Year ended April 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 78,486	\$ 35,542	\$ 114,028
2015	150,465	66,097	216,562
2016	152,351	64,211	216,562
2017	154,262	62,301	216,563
2018	156,196	60,366	216,562
2019-2023	810,855	271,958	1,082,813
2024-2028	862,982	219,830	1,082,812
2029-2033	918,461	164,352	1,082,813
2034-2038	977,506	105,307	1,082,813
2039-2043	1,040,347	42,464	1,082,811
2044	<u>101,898</u>	<u>637</u>	<u>102,535</u>
Total	<u>\$5,403,809</u>	<u>\$1,093,065</u>	<u>\$6,496,874</u>

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2013 and 2012**

NOTE 7 - NOTES PAYABLE (CONTINUED)

The following is a summary of changes in notes payable for the years ended April 30, 2013 and 2012:

	Principal Outstanding April 30, 2011	Issuances	Retirements	Principal Outstanding April 30, 2012	Issuances	Retirements	Principal Outstanding April 30, 2013	Current Portion
Note payable to the IEPA, for the Broadway/Cantrell project; 86.95% of note is payable by City of Decatur; interest at 3.580%; due in semi-annual installments in June and December of each year through December 2012.	\$ 12,675	\$ -	\$ 6,866	\$ 5,789	\$ -	\$ 5,789	\$ -	\$ -
Note payable to the IEPA, for the Staley Sewer Rehabilitation project; 100% payable by City of Decatur; interest at 3.015%; due in semi-annual installments in April and October of each year through November 2014.	-	-	-	-	-	-	-	-
Note payable to the IEPA, for the Norfolk & Western Railroad project; interest at 3.015%; due in semi-annual installments in April and October of each year through October 2014.	24,885	-	6,846	18,039	-	7,054	10,985	7,268

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2013 and 2012**

NOTE 7 - NOTES PAYABLE (CONTINUED)

	Principal Outstanding April 30, 2011	Issuances	Retirements	Principal Outstanding April 30, 2012	Issuances	Retirements	Principal Outstanding April 30, 2013	Current Portion
Note payable to the IEPA, for the Spring Creek Sewer project; 100% payable by City of Decatur; interest at 2.815%; due in semi-annual installments in March and September of each year through March 2015.	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Note payable to the IEPA, for the West Mound Road project; 100% payable by City of Decatur; interest at 2.815%; due in semi-annual installments in April and October of each year through April 2015.	-	-	-	-	-	-	-	-
Note payable to the IEPA, for the Northeast Supplemental Sewer project; interest at 2.815%; due in semi-annual installments in June and July of each year through July 2015.	239,391	-	50,626	188,765	-	52,062	136,703	53,538

SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2013 and 2012

NOTE 7 - NOTES PAYABLE (CONTINUED)

	Principal Outstanding April 30, 2011	Issuances	Retirements	Principal Outstanding April 30, 2012	Issuances	Retirements	Principal Outstanding April 30, 2013	Current Portion
Note payable to the IEPA, for the Stevens Creek project; interest at 2.890%; due in semi-annual installments in April and October of each year through October 2017.	\$ 3,086,171	\$ -	\$ 438,151	\$ 2,648,020	\$ -	\$ 450,905	\$ 2,197,115	\$ 464,030
Note payable to the IEPA, for the McKinley Avenue Supplemental Sewer project; interest at 2.865%; due in semi-annual installments in February and August of each year through February 2019.	2,005,947	-	226,500	1,779,447	-	233,035	1,546,412	239,760
Note payable to the IEPA, for the Hickory Point West Extension project; 92.2265% payable by Village of Forsyth; interest at 2.500%; due in semi-annual installments in May and November of each year through April 2026.	57,384	-	3,196	54,188	-	3,277	50,911	3,359
Note payable to the IEPA, for the 1995 Sewer Rehabilitation project; interest at 2.890%; due in semi-annual installments in May and November of each year through May 2017.	834,077	-	129,235	704,842	-	132,997	571,845	136,868

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2013 and 2012**

NOTE 7 - NOTES PAYABLE (CONTINUED)

	Principal Outstanding April 30, 2011	Issuances	Retirements	Principal Outstanding April 30, 2012	Issuances	Retirements	Principal Outstanding April 30, 2013	Current Portion
Note payable to the IEPA, for the Hickory Point West Interceptor project; interest at 2.625%; 38.71% payable to Village of Forsyth; due in semi-annual installments in February and August of each year through February 2020.	\$ 547,721	\$ -	\$ 54,705	\$ 493,016	\$ -	\$ 56,151	\$ 436,866	\$ 57,634
Note payable to the IEPA, for the Ultra Violet project; interest at 2.535%; due in semi-annual installments in June and December of each year through June 2020.	1,106,506	-	104,402	1,002,104	-	107,066	895,038	109,797
Note payable to the IEPA, for the 2002 Rehabilitation project; interest at 2.500%; due in semi-annual installments in July and January of each year through January 2024.	390,253	-	25,990	364,263	-	26,644	337,618	27,314
Note payable to the IEPA, for the Harryland Road project; interest at 2.9050%; due in semi-annual installments in March and September of each year through September 2021.	331,796	-	27,450	304,346	-	28,253	276,093	29,080

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2013 and 2012**

NOTE 7 - NOTES PAYABLE (CONTINUED)

	Principal Outstanding April 30, 2011	Issuances	Retirements	Principal Outstanding April 30, 2012	Issuances	Retirements	Principal Outstanding April 30, 2013	Current Portion
Note payable to the IEPA, for the Damon to Monroe project; interest at 2.500%; due in semi-annual installments in January and July of each year through July 2024.	\$ 2,098,293	\$ -	\$ 133,095	\$ 1,965,198	\$ -	\$ 136,444	\$ 1,828,754	\$ 139,875
Note payable to the IEPA, for the Phase 2 – WWTP project; interest at 2.570%; due in semi-annual installments in January and July of each year through January 2024.	1,435,603	-	94,756	1,340,847	-	97,207	1,243,640	99,721
Note payable to the IEPA, for the Odor Control project; interest at 2.500%; due in semi-annual installments in April and October of each year through January 2027.	566,822	-	29,212	537,610	-	29,947	507,663	30,700
Note payable to the IEPA, for the 2004 Rehabilitation project; interest at 2.500%; due in semi-annual installments in June and December of each year through December 2025.	1,248,791	-	70,720	1,178,071	-	72,499	1,105,572	74,323

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2013 and 2012**

NOTE 7 - NOTES PAYABLE (CONTINUED)

	Principal Outstanding April 30, 2011	Issuances	Retirements	Principal Outstanding April 30, 2012	Issuances	Retirements	Principal Outstanding April 30, 2013	Current Portion
Note payable to the IEPA, for the Wyckles Forcemain project I; interest at 0.000%; due in semi-annual installments in July and January of each year through 2031.	\$ 808,929	\$ 9,708	\$ 41,484	\$ 777,153	\$ -	\$ 41,484	\$ 735,670	\$ 42,038
Note payable to the IEPA, for the Oreana Collection System project; interest at 0.000%; due in semi-annual installments in March and September of each year through 2031.	3,398,451	1,057,618	114,258	4,341,811	426,493	228,516	4,539,788	240,702
Note payable to the IEPA, for the Wyckles Phase II project; interest at 0.000%; due in semi-annual installments in November and May of each year through 2030.	693,385	100,182	40,695	752,872	-	40,705	712,167	40,695
Note payable to the IEPA, for the Argenta Collection System project; interest at 0.000%; due in semi-annual installments in July and January of each year through 2032.	522,590	3,541,565	-	4,064,155	81,068	-	4,145,223	-
Note payable to the IEPA, for the Stevens Creek Interceptor Rehab project; interest at 1.2500%; due in semi-annual installments in March and September of each year through 2031.	-	1,945,651	-	1,945,651	217,172	*639,805	1,523,017	71,488

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2013 and 2012**

NOTE 7 - NOTES PAYABLE (CONTINUED)

	Principal Outstanding April 30, 2011	Issuances	Retirements	Principal Outstanding April 30, 2012	Issuances	Retirements	Principal Outstanding April 30, 2013	Current Portion
Note payable to the IEPA, for the 2011 Trestle Rehab project; interest at 1.2500%; due in semi-annual installments in January and July of each year through 2032.	-	1,095,083	-	1,095,083	1,652,202	**790,002	1,957,283	-
Totals	19,409,670	7,749,807	1,598,207	25,561,270	2,376,935	3,179,183	24,759,022	1,867,516
Payment received from City of Decatur not remitted to IEPA as of April 30 for Staley Sewer Rehabilitation	20,968	-	-	21,890	-	-	23,236	-
Total	\$ 19,430,638	-	-	\$ 25,583,160	-	-	\$ 24,782,258	1,867,516

* includes noncash loan forgiveness of \$604,394

** includes noncash loan forgiveness of \$790,002

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2013 and 2012**

NOTE 7 - NOTES PAYABLE (CONTINUED)

Annual debt service requirements to maturity for long-term debt are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year Ended April 30			
2014	\$ 1,867,516	\$ 307,828	\$ 2,175,344
2015	1,941,274	266,118	2,207,392
2016	1,928,764	222,714	2,151,478
2017	1,942,873	180,014	2,122,887
2018	1,570,638	137,827	1,708,465
2019-2023	5,154,088	357,296	5,511,384
2024-2028	2,956,209	66,964	3,023,173
2029-2033	<u>1,318,390</u>	<u>9,951</u>	<u>1,328,341</u>
Total	<u>\$ 18,679,752</u>	<u>\$ 1,548,712</u>	<u>\$ 20,228,464</u>
Loan balance, Argenta Collection System – open loan	\$ 4,145,223		
Loan balance, 2011 Trestle Rehab – open loan	<u>1,957,283</u>		
Total	<u>\$ 24,782,258</u>		

Contracts were entered into in previous years for the Argenta Collection System and 2011 Trestle Rehab. The projects are supported by the Illinois Environmental Protection Agency (IEPA) Revolving Loan Fund Program, and include a state funding component, a portion of which does not have to be repaid. The amount of principal forgiveness is recorded as state funding on the Statement of Revenues, Expenses, and Change in Net Position. The Argenta Collection System had drawdowns totaling \$4,145,223 as of April 30, 2013 which are required to be repaid. The maximum loan amount is \$6,840,032. For the 2011 Trestle Rehabilitation, project drawdowns of \$1,957,283 as of April 30, 2013 are required to be repaid. The maximum loan amount for 2011 Trestle Rehabilitation is \$3,160,005.

The District is to raise \$1,556,203 and \$1,825,161 at April 30, 2013 and 2012, respectively, from user charges/property taxes to repay loans from the Illinois EPA Revolving Loan Fund. The City of Decatur and Village of Forsyth portion of the above is \$444,631 and \$612,144 with a current portion of \$130,571 and \$204,398 at April 30, 2013 and 2012, respectively, which is shown on the Statement of Net Position.

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2013 and 2012**

NOTE 8 - PENSION PLAN

Plan Description

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

Funding Policy

As set by statute, District plan members are required to contribute 4.50 percent of their annual covered salary. The statutes require employers to contribute the amount necessary, in addition to member contributions, to finance the retirement coverage of its own employees. The District's contribution rate for calendar year 2012 was 12.65 percent of annual covered payroll. The employer annual required contribution rate for calendar year 2012 was 14.00 percent. The District also contributes for disability benefits, death benefits and supplemental retirement benefits, all of which are pooled at the IMRF level. Contribution rates for disability and death benefits are set by the IMRF Board of Trustees, while the supplemental retirement benefits rate is set by statute.

Annual Pension Cost

For calendar year ending December 31, 2012, the District's actual contributions for pension cost for the Plan were \$461,197. Its required contribution for calendar year 2012 was \$510,416. For calendar year ending December 31, 2011 the District's actual contributions for pension cost to the Plan were \$413,451. Its required contribution for calendar year 2011 was \$496,142.

Three – Year Trend Information for the Plan			
Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/12	\$ 510,416	90%	\$ 289,902
12/31/11	496,142	83%	238,399
12/31/10	1,025,793	38%	164,383

The required contribution for 2012 was determined as part of the December 31, 2010, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at December 31, 2010, included (a) 7.5 percent investment rate of return (net of administrative and direct investment expenses), (b) projected salary increases of 4.00% a year, attributable to inflation, (c) additional projected salary increases ranging from 0.4% to 10% per year depending on age and service, attributable to seniority/merit, and (d) post retirement benefit increases of 3% annually. The actuarial value of the District's plan assets was determined using techniques that spread the effects of short-term volatility in the market value of your investments over a five-year period with a 20% corridor between the actuarial and market value of assets. The plan's unfunded actuarial accrued liability at December 31, 2010 is being amortized as a level percentage of projected payroll on an open 30 year basis.

SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2013 and 2012

NOTE 8 - PENSION PLAN (CONTINUED)

The District chose to make the minimum allowed contribution versus the required contribution because the required contribution increased significantly due to investment returns that were below the actuarial assumption of 7.5%. It is assumed that investment returns will come back to the historical average, the net pension obligation will be eliminated and the District will again be making the required contribution within five years. The net pension obligation was not recorded as a liability since immaterial to the financial statements.

Funded Status and Funding Progress

As of December 31, 2012, the most recent actuarial valuation date, the plan was 24.67 percent funded. The actuarial accrued liability for benefits was \$8,888,216 and the actuarial value of assets was \$2,192,487, resulting in an underfunded actuarial accrued liability (UAAL) of \$6,695,729. The covered payroll for calendar year 2012 (annual payroll of active employees covered by the plan) was \$3,645,825 and the ratio of the UAAL to the covered payroll was 184 percent.

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

NOTE 9 - OTHER POST-EMPLOYMENT BENEFITS

Plan Description

In addition to providing the pension benefits described in Note 7, the District provides other postemployment health care benefits (OPEB) for retired employees through a single employer defined benefit plan (Retiree Healthcare Program). This plan has three components: Retirement Health Savings Program, Health Premium Supplement Program and Deductible Reimbursement Program. Even though Retirement Health Savings Program has defined contribution characteristics, plans with both defined contribution and defined benefit characteristics follow defined benefit plan requirements. Furthermore, the Retirement Health Savings Accounts are not considered OPEB plan assets for purposes of this report. These account balances do offset the District's liabilities under the Health Premium Supplement Program. The calculations of the liabilities associated with the Health Premium Supplement Program recognize this offset. The District has the authority to establish and amend the benefit provisions of this plan. The plan does not issue a separate report.

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2013 and 2012**

NOTE 9 - OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

Monthly Retiree Contributions

Retirees pay for the cost of the postemployment medical plan. The Retirement Health Savings Accounts, however, do pay for part of the cost of the plan and these accounts are partially funded with employer contributions.

Employer Contributions

According to the terms of the Retirement Health Savings Program, for each month of service (but not beginning prior to May 1, 1998), the District contributes \$75 into each employee's Retirement Health Savings Account. Additionally, 1-¼% of an employee's salary (up to a maximum salary base of \$100,000) is also deposited into an employee's Retirement Health Savings Account each year.

Employees may elect to enhance their Retirement Health Savings accounts by contributing a part of their wages to a designated personal Roth IRA. These employee contributions are made in the form of payroll deductions, up to \$520 per year. The District provides a 2 for 1 match of the employee's contributions up to maximum of \$1,040 per year.

The District also pays for the cost of the Health Premium Supplement Program and the Deductible Reimbursement Program.

Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined. The ARC represents a level of funding that, if paid on an on-going basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The net OPEB obligation was calculated as follows:

	<u>2013</u>	<u>2012</u>
Annual required contribution	\$ 159,254	\$ 164,293
Interest on net OPEB obligation	-	-
Adjustment to annual required contribution	<u>7,585</u>	<u>6,138</u>
Annual OPEB cost	166,839	170,431
Estimated contributions made by the District	<u>194,919</u>	<u>199,657</u>
Increase in net OPEB obligation	-	-
Net OPEB obligation, beginning of year	<u>-</u>	<u>-</u>
Net OPEB obligation, end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2013 and 2012**

NOTE 9 - OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

Schedule of Employer Contributions

Actuarial valuation date	May 1, 2013	May 1, 2012
Annual required contribution (ARC)	\$ 159,254	\$ 164,293
Estimated contributions made by the District	\$ 194,919	\$ 199,657
Percentage of ARC contributed	122.4%	121.5%

Funded Status and Funding Progress

Actuarial valuation date	May 1, 2013	May 1, 2012
Actuarial accrued liability (AAL)	\$ 1,366,497	\$ 1,371,842
Unfunded actuarial accrued liability (UAAL)	\$ 1,366,497	\$ 1,371,842
Funded ratio (actuarial value of plan assets/AAL)	0%	0%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the ARCs of the District are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the AALs for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the District and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the District and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the May 1, 2013 and 2012 actuarial valuations, the projected unit credit method was used. The actuarial assumptions included an investment return rate of 3%, salary increases comprised of a wage inflation component of 3%, and a healthcare cost trend rate of 5%. The calculations assume a level dollar open amortization period and amortization factor of 20.188.

The actuarial value of assets was not determined as the District has not advance funded its obligation.

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2013 and 2012**

NOTE 10 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damages to, and destruction of assets; injuries to employees; and natural disasters. The District purchases commercial insurance for these risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

At April 30, 2013, the District had various contracts for construction projects and engineering projects with outstanding commitments totaling approximately \$2,552,268, which were at varying stages of completion. The District is obligated to pay the costs under these contracts as the work is completed. In addition, subsequent to year end, the District entered into a \$6,687,359 contract for Primary Digester Complex Improvements.

NOTE 12 - SUBSEQUENT EVENTS

Events or transactions occurring after November 11, 2013 that provided additional evidence about conditions that existed at April 30, 2013, have been recognized in the financial statements for the year ended November 11, 2013. Events or transactions that provided evidence about conditions that did not exist at April 30, 2013, but arose before the financial statements were available to be issued are disclosed below:

On June 19, 2013 the District issued General Obligation Debt Certificates Series 2013 in the amount of \$5,140,000. The net proceeds of the Certificate are to be used to pay a portion of the costs of improving the District's sanitary sewer system, refunding four outstanding loans from the Illinois Environmental Protection Agency and paying the costs of issuing the Certificate. The outstanding principal amount of the Certificate shall be paid semi-annually on June 26 and December 26 of each year commencing December 26, 2013 and continuing through and including June 26, 2028. Interest is 2% for the first six years and then we will be adjusted based on the agreement for another six years.

NOTE 13 - GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) STATEMENTS

The Governmental Accounting Standards Board (GASB) has issued new accounting standards that may affect portions of these financial statements in future periods. The effect of these statements on the District has not been determined. Listed below are the statements and short summary of the standard's objective.

SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2013 and 2012

NOTE 13 - GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) STATEMENTS
(CONTINUED)

New accounting standards effective for the April 30, 2014 financial statements include:

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*, issued November 2010. The objective of this statement is to improve financial reporting for a governmental financial reporting entity. This statement modifies certain requirements for inclusion of component units in the financial reporting entity.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, issued March 2012. The objective of this statement is to establish accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

GASB Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*, issued March 2012. The objective of this statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, and No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.

GASB Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*, issued June 2012. The objective of this statement is to improve financial reporting by state and local governmental pension plans. This statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

New accounting standards effective for the April 30, 2015 financial statements include:

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, issued June 2012. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, issued January 2013. The objective of this statement is to improve financial reporting by addressing accounting and financial reporting for government combinations and disposals of government operations.

SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2013 and 2012

NOTE 14 - PRIOR PERIOD ADJUSTMENT

The 2012 financial statements have been restated to correct an error made during 2012 in recording activity to an intergovernmental agreement. As discussed in Note 6, the District financed the construction of a joint wastewater collection system for the Village of Oreana, which was completed during fiscal year 2012. The cost of the project was recorded as capital assets of the District, but the costs of the collection system assets located within the Village should have been recorded instead by the Village and a note receivable for the Village's portion of the cost (net of grant funds) should also have been recorded by the District. The 2012 financial statements have been restated to reduce the net capital assets (\$4,976,216), record the note receivable (\$4,134,103) and record the pass-through grant activity (\$1,164,431), as well as annexation fees earned by the District (\$220,763), and reduce the 2012 change in net position by \$842,113.

This information is an integral part of the accompanying financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

**SANITARY DISTRICT OF DECATUR
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS
Year Ended April 30, 2013**

Illinois Municipal Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/12	\$ 2,192,487	\$ 8,888,216	\$6,695,729	24.67%	\$ 3,645,825	183.65%
12/31/11	8,281,786	12,658,681	4,376,895	65.42%	3,595,230	121.74%
12/31/10	9,157,903	13,108,764	3,950,861	69.86%	3,726,090	106.03%

On a market value basis, the actuarial value of assets as of December 31, 2012 is \$2,623,519. On a market basis, the funded ratio would be 29.52%.

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

Other Post-Employment Benefits

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
05/01/12	\$ -	\$ 1,366,497	\$1,366,497	0.00%	N/A	N/A
05/01/11	-	1,371,842	1,371,842	0.00%	N/A	N/A
05/01/10	-	1,184,511	1,184,511	0.00%	N/A	N/A